STERLING BANCORP
Form 10-K
March 14, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K
Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended December 31, 2007 — Commission File No. 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 No.)
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)

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT:

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
Common Shares, $1 par value per share, and attached Preferred Stock Purchase Rights	New York Stock Exchange
Cumulative Trust Preferred Securities 8.375% (Liquidation Amount $10 per Preferred Security) of Sterling Bancorp Trust I and Guarantee of Sterling Bancorp with respect thereto	New York Stock Exchange

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT: NONE

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes o No x

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes o No x

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 x No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant’s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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

Large Accelerated Filer o Accelerated Filer x Non-Accelerated Filer o Smaller Reporting Company o
Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Act).
Yes o No x

On June 30, 2007, the aggregate market value of the common equity held by non-affiliates of the Registrant was $261,866,176.

The Registrant has one class of common stock, of which 17,960,620 **shares were outstanding at March 5, 2008**.

DOCUMENTS INCORPORATED BY REFERENCE

(1) Portions of Sterling Bancorp’s definitive 2008 Proxy Statement to be filed pursuant to Regulation 14A are incorporated by reference in Part III.

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PART I

ITEM 1. BUSINESS

The disclosures set forth in this item are qualified by Item 1A. Risk Factors on pages 10-15 and the section captioned "FORWARD-LOOKING STATEMENTS AND FACTORS THAT COULD AFFECT FUTURE RESULTS" on page 20 and other cautionary statements set forth elsewhere in this report.

Sterling Bancorp (the "parent company" or the "Registrant") is a bank holding company and a financial holding company as defined by the Bank Holding Company Act of 1956, as amended (the "BHCA"), which was organized in 1966. Sterling Bancorp and its subsidiaries derive substantially all of their revenue and income from providing banking and related financial services and products to customers primarily in New York, New Jersey and Connecticut ("the New York metropolitan area"). Throughout this report, the terms the "Company" or "Sterling" refer to Sterling Bancorp and its subsidiaries. The Company has operations in New York, New Jersey and North Carolina and conducts business throughout the United States.

The parent company owns, directly or indirectly, all of the outstanding shares of Sterling National Bank (the "bank"), its principal subsidiary, and all of the outstanding shares of Sterling Banking Corporation and Sterling Real Estate Abstract Holding Company, Inc. (the "finance subsidiaries") and Sterling Bancorp Trust I (the "trust"). Sterling National Mortgage Company, Inc. ("SNMC"), Sterling Factors Corporation ("Factors"), Sterling Trade Services, Inc. ("Trade Services"), Sterling Resource Funding Corp. ("Resource Funding") and Sterling Real Estate Holding Company, Inc. are wholly-owned subsidiaries of the bank. Trade Services owns all of the outstanding common shares of Sterling National Asia Limited, Hong Kong. Sterling Real Estate Abstract Holding Company, Inc. owns 51% of the outstanding common shares of SBC Abstract Company, LLC.

In September 2006, the business conducted by Sterling Financial Services Company, Inc. ("Sterling Financial") was sold (see Note 2 beginning on page 51). The results of operations of Sterling Financial have been reported as a discontinued operation and all prior period amounts have been restated as appropriate.

Segment information appears in Note 22 of the Company's consolidated financial statements.

GOVERNMENT MONETARY POLICY

The Company is affected by the credit policies of monetary authorities, including the Board of Governors of the Federal Reserve System (the "Federal Reserve Board"). An important objective of the Federal Reserve System is to regulate the national supply of bank credit. Among the instruments of monetary policy used by the Federal Reserve Board are open market operations in U.S. Government securities, changes in the discount rate, reserve requirements on member bank deposits, and funds availability regulations. The monetary policies of the Federal Reserve Board have in the past had a significant effect on operations of financial institutions, including the bank, and will continue to do so in the future. Changing conditions in the national economy and in the money markets make it difficult to predict future changes in interest rates, deposit levels, loan demand or their effects on the business and earnings of the Company. Foreign activities of the Company are not considered to be material.

BUSINESS OPERATIONS

The Bank

Sterling National Bank was organized in 1929 under the National Bank Act and commenced operations in New York City. The bank maintains twelve offices in New York: nine offices in New York City (six branches and an international banking facility in Manhattan and three branches in Queens); two branches in Nassau County, one in Great Neck and another in Woodbury, New York; and one branch in Yonkers, New York. The executive office is located at 650 Fifth Avenue, New York, New York.

The bank provides a broad range of banking and financial products and services, including business and consumer lending, asset-based financing, factoring/accounts receivable management services, equipment leasing, commercial and residential mortgage lending and brokerage, deposit services, international trade financing, trust and estate administration, investment management and investment services. Business lending, depository and related financial services are furnished to a wide range of customers in diverse industries, including commercial, industrial and financial companies, and government and non-profit entities.

For the year ended December 31, 2007, the bank's average earning assets represented approximately 99.7% of the Company's average earning assets. Loans represented 64.4% and investment securities represented 34.1% of the bank's average earning assets in 2007.

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Commercial Lending, Asset-Based Financing and Factoring/Accounts Receivable Management. The bank provides loans to small and medium-sized businesses. The businesses are diversified across industries, and the loans generally range in size from $250,000 to $15 million. Business loans can be tailored to meet customers' specific long- and short-term needs, and include secured and unsecured lines of credit, business installment loans, business lines of credit, and debtor-in-possession financing. Loans are often collateralized by assets, such as accounts receivable, inventory, marketable securities, other liquid collateral, equipment and other assets.

Through its factoring subsidiary ("Factors"), the bank provides accounts receivable management services. The purchase of a client's accounts receivable is traditionally known as "factoring" and results in payment by the client of a nonrefundable factoring fee, which is generally a percentage of the factored receivables or sales volume and is designed to compensate for the bookkeeping and collection services provided by Factors and, if applicable, its credit review of the client's customer and assumption of customer credit risk. When Factors "factors" (*i.e.,* purchases) an account receivable from a client, it records the receivable as an asset (included in "Loans held in portfolio, net of unearned discounts"), records a liability for the funds due to the client (included in "Accrued expenses and other liabilities") and credits to noninterest income the nonrefundable factoring fee (included in "Factoring income"). Factors also may advance funds to its client prior to the collection of receivables, charging interest on such advances (in addition to any factoring fees) and normally satisfying such advances by the collection of receivables. The accounts receivable factored are primarily for clients engaged in the apparel and textile industries.

Through a subsidiary, Sterling Resource Funding Corp., which was acquired on April 1, 2006, the bank provides financing and human resource business process outsourcing support services, exclusively for the temporary staffing industry. For over 25 years and throughout the United States, Resource Funding has provided full back-office, computer, tax and accounting services, as well as financing, to independently-owned staffing companies. The average contract term is 18 months for approximately 225 owners of staffing companies.

As of December 31, 2007, the outstanding loan balance (net of unearned discounts) for commercial and industrial lending and factored receivables was $632.6 million, representing approximately 52.2% of the bank's total loan portfolio.

There are no industry concentrations in the commercial and industrial loan portfolio that exceed 10% of gross loans. Approximately 72% of the bank's loans are to borrowers located in the New York metropolitan area. The bank has no foreign loans.

Equipment Leasing. The bank offers equipment leasing services in the New York metropolitan area and across the United States through direct leasing programs, third party sources and vendor programs. The bank finances small and medium-sized equipment leases with an average term of 24 to 30 months. At December 31, 2007, the outstanding loan balance (net of unearned discounts) for equipment leases was $249.7 million, and equipment leases comprised approximately 20.6% of the bank's total loan portfolio.

Residential and Commercial Mortgages. The bank's real estate loan portfolio consists of real estate loans on one-to-four family residential properties and commercial properties. The residential mortgage banking and brokerage business is conducted through offices located principally in New York and North Carolina. Residential mortgage loans—focused on conforming credit, government insured FHA and other high quality loan products—are originated primarily in the New York metropolitan area, Virginia and other mid-Atlantic states, almost all of these for resale. Commercial real estate financing is offered on income-producing investor properties and owner-occupied properties, professional co-ops and condos. At December 31, 2007, the outstanding loan balance for real estate mortgage loans was $252.3 million, representing approximately 20.8% of the bank's total loans outstanding.

Deposit Services. The bank attracts deposits from customers located primarily in the New York metropolitan area, offering a broad array of deposit products, including checking accounts, money market accounts, NOW accounts, savings accounts, rent security accounts, retirement accounts, and certificates of deposit. The bank's deposit services include account management and information, disbursement, reconciliation, collection and concentration, ACH and others designed for specific business purposes. The deposits of the bank are insured to the extent permitted by law pursuant to the Federal Deposit Insurance Act, as amended.

International Trade Finance. Through its international division, international banking facility and Hong Kong trade services subsidiary, the bank offers financial services to its customers and correspondents in the world's major financial centers. These services consist of financing import and export transactions, issuing of letters of credit, processing documentary collections and creating banker's acceptances. In addition, active bank account relationships are maintained with leading foreign banking institutions in major financial centers.

Trust Services. The bank's trust department provides a variety of fiduciary, investment management, custody and advisory and corporate agency services to individuals and corporations. The bank acts as trustee for pension, profit-sharing, 401(k) and other employee benefit plans and personal trusts and estates. For corporations, the bank acts as trustee, transfer agent, registrar and in other corporate agency capacities.

The composition of total revenues (interest income and non-interest income) of the bank and its subsidiaries for the three most recent fiscal years was as follows:

Years Ended December 31,	**2007**	2006	2005
Interest and fees on loans	**59%**	58%	51%
Interest and dividends on investment securities	**18**	20	23
Other	**23**	22	26
	100%	100%	100%

At December 31, 2007, the bank and its subsidiaries had 586 full-time equivalent employees, consisting of 207 officers and 379 supervisory and clerical employees. The bank considers its relations with its employees to be satisfactory.

COMPETITION

There is intense competition in all areas in which the Company conducts its business. As a result of the deregulation of the financial services industry under the Gramm-Leach-Bliley Act of 1999, the Company competes with banks and other financial institutions, including savings and loan associations, savings banks, finance companies, and credit unions. Many of these competitors have substantially greater resources and lending limits and provide a wider array of banking services. To a limited extent, the Company also competes with other providers of financial services, such as money market mutual funds, brokerage firms, consumer finance companies and insurance companies. Competition is based on a number of factors, including prices, interest rates, services, availability of products, and geographic location.

SUPERVISION AND REGULATION

General

The banking industry is highly regulated. Statutory and regulatory controls are designed primarily for the protection of depositors and the banking system, and not for the purpose of protecting the shareholders of the parent company. The following discussion is not intended to be a complete list of all the activities regulated by the banking laws or of the impact of such laws and regulations on the bank. It is intended only to briefly summarize some material provisions.

Sterling Bancorp is a bank holding company and a financial holding company under the BHCA and is subject to supervision, examination and reporting requirements of the Federal Reserve Board. Sterling Bancorp is also under the jurisdiction of the Securities and Exchange Commission and is subject to the disclosure and regulatory requirements of the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended, as administered by the SEC. Sterling Bancorp is listed on the New York Stock Exchange (“NYSE”) under the trading symbol “STL” and is subject to the rules of the NYSE for listed companies.

As a national bank, the bank is principally subject to the supervision, examination and reporting requirements of the Office of the Comptroller of the Currency (the “OCC”), as well as the Federal Deposit Insurance Corporation (the “FDIC”). Insured banks, including the bank, are subject to extensive regulation of many aspects of their business. These regulations relate to, among other things: (a) the nature and amount of loans that may be made by the bank and the rates of interest that may be charged; (b) types and amounts of other investments; (c) branching; (d) permissible activities; (e) reserve requirements; and (f) dealings with officers, directors and affiliates.

Sterling Banking Corporation is subject to supervision and regulation by the Banking Department of the State of New York.

Bank Holding Company Regulation

The BHCA requires the prior approval of the Federal Reserve Board for the acquisition by a bank holding company of more than 5% of the voting stock or substantially all of the assets of any bank or bank holding company. Also, under the BHCA, bank holding companies are prohibited, with certain exceptions, from engaging in, or from acquiring more than 5% of the voting stock of any company engaging in, activities other than (1) banking or managing or controlling banks, (2) furnishing services to or performing services for their subsidiaries, or (3) activities that the Federal Reserve Board has determined to be so closely related to banking or managing or controlling banks as to be a proper incident thereto.

As discussed below under “Financial Holding Company Regulation,” the Gramm-Leach-Bliley Act of 1999 amended the BHCA to permit a broader range of activities for bank holding companies that qualify as “financial holding companies.”

Financial Holding Company Regulation

The Gramm-Leach-Bliley Act:

- allows bank holding companies, the depository institution subsidiaries of which meet management, capital and the Community Reinvestment Act (the “CRA”) standards, to engage in a substantially broader range of non-banking financial activities than was previously permissible, including (a) insurance underwriting and agency, (b) making merchant banking investments in commercial companies, (c) securities underwriting, dealing and market making, and (d) sponsoring mutual funds and investment companies;

- allows insurers and other financial services companies to acquire banks; and

- establishes the overall regulatory structure applicable to bank holding companies that also engage in insurance and securities operations.

In order for a bank holding company to engage in the broader range of activities that are permitted by the Gramm-Leach-Bliley Act, (1) all of its depository subsidiaries must be and remain "well capitalized" and "well managed" and have received at least a satisfactory CRA rating, and (2) it must file a declaration with the Federal Reserve Board that it elects to be a "financial holding company."

Requirements and standards to remain "well capitalized" are discussed below. To maintain financial holding company status, the bank must have at least a "satisfactory" rating under the CRA. Under the CRA, during examinations of the bank, the OCC is required to assess the bank's record of meeting the credit needs of the communities serviced by the bank, including low- and moderate-income communities. Banks are given one of four ratings under the CRA: "outstanding," "satisfactory," "needs to improve" or "substantial non-compliance." The bank received a rating of "outstanding on the most recent exam completed by the OCC.

Pursuant to an election made under the Gramm-Leach-Bliley Act, the parent company has been designated as a financial holding company. As a financial holding company, Sterling Bancorp may conduct, or acquire a company (other than a U.S. depository institution or foreign bank) engaged in, activities that are "financial in nature," as well as additional activities that the Federal Reserve Board determines (in the case of incidental activities, in conjunction with the Department of the Treasury) are incidental or complementary to financial activities, without the prior approval of the Federal Reserve Board. Under the Gramm-Leach-Bliley Act, activities that are financial in nature include insurance, securities underwriting and dealing, merchant banking, and sponsoring mutual funds and investment companies. Under the merchant banking authority added by the Gramm-Leach-Bliley Act, financial holding companies may invest in companies that engage in activities that are not otherwise permissible "financial" activities, subject to certain limitations, including that the financial holding company makes the investment with the intention of limiting the investment duration and does not manage the company on a day-to-day basis.

Generally, financial holding companies must continue to meet all the requirements for financial holding company status in order to maintain the ability to undertake new activities or acquisitions that are financial in nature and the ability to continue those activities that are not generally permissible for bank holding companies. If the parent company ceases to so qualify, it would be required to obtain the prior approval of the Federal Reserve Board to engage in non-banking activities or to acquire more than 5% of the voting stock of any company that is engaged in non-banking activities. With certain exceptions, the Federal Reserve Board can only provide prior approval to applications involving activities that it had previously determined, by regulation or order, are so closely related to banking as to be properly incident thereto. Such activities are more limited than the range of activities that are deemed "financial in nature."

Payment of Dividends and Transactions with Affiliates

The parent company depends for its cash requirements on funds maintained or generated by its subsidiaries, principally the bank. Such sources have been adequate to meet the parent company's cash requirements throughout its history.

Various legal restrictions limit the extent to which the bank can fund the parent company and its nonbank subsidiaries. All national banks are limited in the payment of dividends without the approval of the OCC 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, less any required transfers to surplus. Federal law also prohibits national banks from paying dividends that would be greater than the bank's undivided profits after deducting statutory bad debt in excess of the bank's allowance for loan losses. Under the foregoing restrictions, and without adversely affecting its "well capitalized" status, as of December 31, 2007, the bank could pay dividends of approximately $20 million to the parent company, without obtaining regulatory approval. This is not necessarily indicative of amounts that may be paid or are available to be paid in future periods.

Under the Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA"), a depository institution, such as the bank, may not pay dividends if payment would cause it to become undercapitalized or if it is already undercapitalized. The payment of dividends by the parent company and the bank may also be affected or limited by other factors, such as the requirement to maintain adequate capital.

Federal laws strictly limit the ability of banks to engage in transactions with their affiliates, including their bank holding companies. Such transactions between a subsidiary bank and its parent company or the nonbank subsidiaries of the bank holding company are limited to 10% of a bank subsidiary's capital and surplus and, with respect to such parent company and all such nonbank subsidiaries, to an aggregate of 20% of the bank subsidiary's capital and surplus. Further, loans and extensions of credit generally are required to be secured by eligible collateral in specified amounts. Federal law also requires that all transactions between a bank and its affiliates be on terms only as favorable to the bank as transactions with non-affiliates.

Federal law also limits a bank's authority to extend credit to its directors, executive officers and 10% shareholders, as well as to entities controlled by such persons. Among other things, extensions of credit to insiders are required to be made on terms that are substantially the same as, and follow credit underwriting procedures that are not less stringent than, those prevailing for comparable transactions with unaffiliated persons. Also, the terms of such extensions of credit may not involve more than the normal risk of repayment or present other unfavorable features and may not exceed certain limitations on the amount of credit extended to such persons, individually and in the aggregate, which limits are based, in part, on the amount of the bank's capital.

Banks are subject to prohibitions on certain tying arrangements. A depository institution is prohibited, subject to some exceptions, from extending credit to or offering any other service, or fixing or varying the consideration for such extension of credit or service, on the condition that the customer obtain some additional service from the institution or its affiliates or not obtain services of a competitor of the institution.

Capital Adequacy and Prompt Corrective Action

Banks and bank holding companies are subject to various regulatory capital requirements administered by state and federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk weighting and other factors.

The Federal Reserve Board, the OCC and the FDIC have substantially similar risk-based capital ratio and leverage ratio guidelines for banking organizations. The guidelines are intended to ensure that banking organizations have adequate capital given the risk levels of assets and off-balance sheet financial instruments. Under the guidelines, banking organizations are required to maintain minimum ratios for Tier 1 capital and total capital to risk-weighted assets (including certain off-balance sheet items, such as letters of credit). For purposes of calculating the ratios, a banking organization's assets and some of its specified off-balance sheet commitments and obligations are assigned to various risk categories. A depository institution's or holding company's capital, in turn, is classified in tiers, depending on type:

- *Core Capital (Tier 1).* Tier 1 capital includes common equity, retained earnings, qualifying non-cumulative perpetual preferred stock, a limited amount of qualifying cumulative perpetual stock at the holding company level, minority interests in equity accounts of consolidated subsidiaries, less goodwill, most intangible assets and certain other assets.

- *Supplementary Capital (Tier 2).* Tier 2 capital includes, among other things, perpetual preferred stock not meeting the Tier 1 definition, qualifying mandatory convertible debt securities, qualifying subordinated debt, and allowances for loan and lease losses, subject to limitations.

Sterling Bancorp, like other bank holding companies, currently is required to maintain Tier 1 capital and "total capital" (the sum of Tier 1 and Tier 2 capital) equal to at least 4.0% and 8.0%, respectively, of its total risk-weighted assets (including various off-balance-sheet items, such as standby letters of credit). Sterling National Bank, like other depository institutions, is required to maintain similar capital levels under capital adequacy guidelines. For a depository institution to be considered "well capitalized" under the regulatory framework for prompt corrective action, its Tier 1 and total capital ratios must be at least 6.0% and 10.0% on a risk-adjusted basis, respectively.

Bank holding companies and banks are also required to comply with minimum leverage ratio requirements. The leverage ratio is the ratio of a banking organization's Tier 1 capital to its total adjusted quarterly average assets (as defined for regulatory purposes). The requirements necessitate a minimum leverage ratio of 3.0% for financial holding companies and national banks that have the highest supervisory rating. All other financial holding companies and national banks are required to maintain a minimum leverage ratio of 4.0%, unless a different minimum is specified by an appropriate regulatory authority. For a depository institution to be considered "well capitalized" under the regulatory framework for prompt corrective action, its leverage ratio must be at least 5.0%. The Federal Reserve Board has not advised Sterling Bancorp, and the OCC has not advised Sterling National Bank, of any specific minimum leverage ratio applicable to it.

The Federal Deposit Insurance Act, as amended ("FDIA"), requires, among other things, the federal banking agencies to take "prompt corrective action" in respect of depository institutions that do not meet minimum capital requirements. The FDIA sets forth the following five capital tiers: "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized" and "critically undercapitalized." A depository institution capital tier will depend upon how its capital levels compare with various relevant capital measures and certain other factors, as established by regulation. The relevant capital measures are the total capital ratio, the Tier 1 capital ratio and the leverage ratio.

Under the regulations adopted by the federal regulatory authorities, a bank will be: (i) "well capitalized" if the institution has a total risk-based capital ratio of 10.0% or greater, a Tier 1 risk-based capital ratio of 6.0% or greater, and a leverage ratio of 5.0% or greater, and is not subject to any order or written directive by any such regulatory authority to meet and maintain a specific capital level for any capital measure; (ii) "adequately capitalized" if the institution has a total risk-based

capital ratio of 8.0% or greater, a Tier 1 risk-based capital ratio of 4.0% or greater, and a leverage ratio of 4.0% or greater and is not "well capitalized"; (iii) "undercapitalized" if the institution has a total risk-based ratio that is less than 8.0%, a Tier 1 risk-based capital ratio of less than 4.0% or a leverage ratio of less than 4.0%; (iv) "significantly undercapitalized" if the institution has a total risk-based capital ratio of less than 6.0%, a Tier 1 risk-based capital ratio of less than 3.0% or a leverage ratio of less than 3.0%; and (v) "critically undercapitalized" if the institution's tangible equity is equal to or less than 2.0% of average quarterly tangible assets. An institution may be downgraded to, or deemed to be in, a capital category that is lower than that indicated by its capital ratios if it is determined to be in an unsafe or unsound condition or if it receives an unsatisfactory examination rating with respect to certain matters. As of December 31, 2007, the Company and the bank were "well capitalized," based on the ratios and guidelines described above. A bank's capital category is determined solely for the purpose of applying prompt corrective action regulations, and the capital category may not constitute an accurate representation of the bank's overall financial condition or prospects for other purposes.

The FDIA generally prohibits a depository institution from making any capital distributions (including payment of a dividend) or paying any management fee to its parent holding company if the depository institution would thereafter be undercapitalized. Undercapitalized institutions are subject to growth limitations and are required to submit a capital restoration plan. The agencies may not accept such a plan without determining, among other things, that the plan is based on realistic assumptions and is likely to succeed in restoring the depository institution's capital. In addition, for a capital restoration plan to be acceptable, the depository institution's parent holding company must guarantee that the institution will comply with such a capital restoration plan. The aggregate liability of the parent holding company is limited to the lesser of (i) an amount equal to 5.0% of the depository institution's total assets at the time it became undercapitalized and (ii) the amount which is necessary (or would have been necessary) to bring the institution into compliance with all capital standards applicable with respect to such institution as of the time it fails to comply with the plan. If a depository institution fails to submit an acceptable plan, it is treated as if it is "significantly undercapitalized."

"Significantly undercapitalized" depository institutions may be subject to a number of requirements and restrictions, including orders to sell sufficient voting stock to become "adequately capitalized," requirements to reduce total assets, and cessation of receipt of deposits from correspondent banks. "Critically undercapitalized" institutions are subject to the appointment of a receiver or conservator.

The federal regulatory authorities' risk-based capital guidelines are based upon the 1988 capital accord of the Basel Committee on Banking Supervision (the "BIS"). The BIS is a committee of central banks and bank supervisors/regulators from the major industrialized countries that develops broad policy guidelines for use by each country's supervisors in determining the supervisory policies that apply. In 2004, the BIS published a new capital accord to replace its 1988 capital accord, with an update in November 2005 ("BIS II"). BIS II provides two approaches for setting capital standards for credit-risk—an internal ratings-based approach tailored to individual institutions' circumstances (which for many asset classes is itself broken into a "foundation" approach and an "advances or A-IRB" approach, the availability of which is subject to additional restrictions) and a standardized approach that bases risk weightings on external credit assessments to a much greater extent than permitted in existing risk-based capital guidelines. BIS II also would set capital requirements for operational risk and refine the existing requirements for market risk exposures.

The U.S. banking and thrift agencies are developing proposed revisions to their existing capital adequacy regulations and standards based on BIS II. In November 2007, the agencies adopted a definitive final rule for implementing BIS II in the United States that would apply only to internationally active banking organizations, or "core banks"—defined as those with consolidated total assets of $250 billion or more or consolidated on-balance-sheet foreign exposures of $10 billion or more. The final rule will be effective as of April 1, 2008. Other U.S. banking organizations may elect to adopt the requirements of this rule (if they meet applicable qualification requirements), but they will not be required to apply them. The rule also allows a banking organization's primary federal supervisor to determine that the application of the rule would not be appropriate in light of the bank's asset size, level of complexity, risk profile, or scope of operations. This new proposal, which is intended to be finalized before the core banks may start their first transition period year under BIS II, will replace the agencies' earlier proposed amendments to existing risk-based capital guidelines to make them more risk sensitive (formerly referred to as the "BIS I-A" approach).

The Company is not required to comply with BIS II. The Company has not made a determination as to whether it will elect to apply the BIS II requirements when they become effective.

Support of the Bank

The Federal Reserve Board has stated that a bank holding company should serve as a source of financial and managerial strength to its subsidiary banks. As a result, the Federal Reserve Board may require the parent company to stand ready to use its resources to provide adequate capital funds to its banking subsidiaries during periods of financial stress or adversity. This support may be required at times by the Federal Reserve Board even though not expressly required by regulation and even though the parent company may not be in a financial position to provide such support. In addition, any capital loans by a bank holding company to any of its subsidiary banks are subordinate in right of payment to deposits to certain other indebtedness of such subsidiary banks. The BHCA provides that, in the event of a bank holding company's bankruptcy, any commitment by the bank holding company to a federal bank regulatory agency to maintain the capital of a subsidiary bank will be assumed by the bankruptcy trustee and entitled to priority of payment. Furthermore, under the National Bank Act, if the capital stock of the bank is impaired by losses or otherwise, the OCC is authorized to require payment of the deficiency by assessment upon the parent company. If the assessment is not paid within three months, the OCC could order a sale of the capital stock of the bank held by the parent company to make good the deficiency.

FDIC Insurance

The FDIC utilizes a risk-based assessment system that imposes insurance premiums based upon a risk matrix that takes into account a bank's capital level and supervisory rating. As of January 1, 2007, the previous nine risk categories utilized in the risk matrix were condensed into four risk categories which continue to be distinguished by capital levels and supervisory ratings.

The three capital categories are "well capitalized," "adequately capitalized," and "undercapitalized." These three categories are substantially the same as the prompt corrective action categories previously described, with the "undercapitalized" category including institutions that are "undercapitalized," "significantly undercapitalized," and "critically undercapitalized" for prompt corrective action purposes.

The bank was not required to pay any deposit insurance premium in 2007 as the entire premium assessed was offset by the assessment credit described below. Under the final regulations, assessment rates for 2008 will range from 5 to 7 basis points per $100 of deposits for banks in Risk Category I, to 43 basis points for banks assigned to Risk Category IV. However, under the Federal Deposit Insurance Reform Act of 2005, which became law in 2006, the bank received a onetime assessment credit that can be applied against future premiums through 2010, subject to certain limitations. Any increase in insurance assessments could have an adverse impact on the earnings of insured institutions, including the bank. As of December 31, 2007, approximately $110,000 of the credit remained available to offset deposit insurance assessments through the second quarter of 2008.

In addition, the bank is required to make payments for the servicing of obligations of the Financing Corporation ("FICO") issued in connection with the resolution of savings and loan associations, so long as such obligations remain outstanding. The FICO annual assessment rate for the first quarter of 2008 is 1.14 cents per $100 of deposits. The bank's assessment credit is not available to offset FICO assessments.

Under the FDIA, insurance of deposits may be terminated by the FDIC upon a finding that the institution has engaged in unsafe and unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, rule, order, or condition imposed by the FDIC.

In its resolution of the problems of an insured depository institution in default or in danger of default, the FDIC is generally required to satisfy its obligations to insured depositors at the least possible cost to the deposit insurance fund. In addition, the FDIC may not take any action that would have the effect of increasing the losses to the deposit insurance fund by protecting depositors for more than the insured portion of deposits (generally $100,000) or creditors other than depositors.

Depositor Preference

The FDIA provides that, in the event of the "liquidation or other resolution" of an insured depository institution, the claims of depositors of the institution, including the claims of the FDIC as subrogee of insured depositors, and certain claims for administrative expenses of the FDIC as a receiver, will have priority over other general unsecured claims against the institution. If an insured depository institution fails, insured and uninsured depositors, along with the FDIC, will have priority in payment ahead of unsecured, non-deposit creditors, including the parent bank holding company, with respect to any extensions of credit they have made to such insured depository institution.

Liability of Commonly Controlled Institutions

The FDIA provides that a depository institution insured by the FDIC can be held liable by the FDIC for any loss incurred, or reasonably expected to be incurred, in connection with the default of a commonly controlled FDIC-insured depository institution or in connection with any assistance provided by the FDIC to a commonly controlled institution “in danger of default” (as defined in the FDIA).

Community Reinvestment Act

The CRA requires depository institutions to assist in meeting the credit needs of their market areas consistent with safe and sound banking practice. Under the CRA, each depository institution is required to help meet the credit needs of its market areas by, among other things, providing credit to low- and moderate-income individuals and communities. Depository institutions are periodically examined for compliance with the CRA and are assigned ratings. In order for a financial holding company to commence any new activity permitted by the BHCA, or to acquire any company engaged in any new activity permitted by the BHCA, each insured depository institution subsidiary of the financial holding company must have received a rating of at least "satisfactory" in its most recent examination under the CRA. Furthermore, banking regulators take into account CRA ratings when considering approval of a proposed transaction.

Financial Privacy

In accordance with the Gramm-Leach-Bliley Act, federal banking regulators adopted rules that limit the ability of banks and other financial institutions to disclose non-public information about consumers to nonaffiliated third parties. These limitations require disclosure of privacy policies to consumers and, in some circumstances, allow consumers to prevent disclosure of certain personal information to a nonaffiliated third party. The privacy provisions of the Gramm-Leach-Bliley Act affect how consumer information is transmitted through diversified financial companies and conveyed to outside vendors.

Anti-Money Laundering Initiatives and the USA Patriot Act

A major focus of governmental policy on financial institutions in recent years has been aimed at combating money laundering and terrorist financing. The USA Patriot Act of 2001 (the "USA Patriot Act") substantially broadened the scope of United States anti-money laundering laws and regulations by imposing significant new compliance and due diligence obligations, creating new crimes and penalties and expanding the extra-territorial jurisdiction of the United States. The United States Treasury Department has issued a number of implementing regulations which apply to various requirements of the USA Patriot Act to financial institutions such as the Company. These regulations impose obligations on financial institutions to maintain appropriate policies, procedures and controls to detect, prevent and report money laundering and terrorist financing and to verify the identity of their customers. Failure of a financial institution to maintain and implement adequate programs to combat money laundering and terrorist financing, or to comply with all of the relevant laws or regulations, could have serious legal and reputational consequences for the institution, including the imposition of enforcement actions and civil monetary penalties.

Office of Foreign Assets Control Regulation

The United States has imposed economic sanctions that affect transactions with designated foreign countries, nationals and others. These sanctions, which are administered by the U.S. Treasury Department Office of Foreign Assets Control ("OFAC"), take many different forms. Generally, however, they contain one or more of the following elements: (i) restrictions on trade with or investment in a sanctioned country, including prohibitions against direct or indirect imports from and exports to a sanctioned country and prohibitions on "U.S. persons" engaging in financial transactions relating to making investments in, or providing investment-related advice or assistance to, a sanctioned country; and (ii) a blocking of assets in which the government or specially designated nationals of the sanctioned country have an interest, by prohibiting transfers of property subject to U.S. jurisdiction (including property in the possession or control of U.S. persons). Blocked assets (for example, property and bank deposits) cannot be paid out, withdrawn, set off or transferred in any manner without a license from OFAC. Failure to comply with these sanctions could have serious legal and reputational consequences.

Legislative Initiatives

From time to time, various legislative and regulatory initiatives are introduced in Congress and state legislatures, as well as by regulatory agencies. Such initiatives may include proposals to expand or contract the powers of bank holding companies and depository institutions or proposals to substantially change the financial institution regulatory system. Such legislation could change banking statutes and the operating environment of the Company in substantial and unpredictable ways. If enacted, such legislation could increase or decrease the cost of doing business, limit or expand permissible activities or affect the competitive balance among banks, savings associations, credit unions and other financial institutions. The Company cannot predict whether any such legislation will be enacted, and, if enacted, the effect that it, or any implementing regulations, would have on the financial condition or results of operations of the Company. A change in statutes, regulations or regulatory policies applicable to the Company could have a material effect on the business of the Company.

Safety and Soundness Standards

Federal banking agencies promulgate safety and soundness standards relating to, among other things, internal controls, information systems and internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, compensation, fees, and benefits. With respect to internal controls, information systems and internal audit systems, the standards describe the functions that adequate internal controls and information systems must be able to perform, including:

(i) monitoring adherence to prescribed policies; (ii) effective risk management; (iii) timely and accurate financial, operations, and regulatory reporting; (iv) safeguarding and managing assets; and (v) compliance with applicable laws and regulations. The standards also include requirements that: (i) those performing internal audits be qualified and independent; (ii) internal controls and information systems be tested and reviewed; (iii) corrective actions be adequately documented; and (iv) results of an audit be made available for review of management actions.

SELECTED CONSOLIDATED STATISTICAL INFORMATION

I. Distribution of Assets, Liabilities and Shareholders' Equity; Interest Rates and Interest Differential

The information appears on pages 31 and 32 in Management's Discussion and Analysis of Financial Condition and Results of Operations.

II. Investment Portfolio

A summary of the Company's investment securities by type with related carrying values at the end of each of the three most recent fiscal years appears on page 25 in Management's Discussion and Analysis of Financial Condition and Results of Operations. Information regarding book values and range of maturities by type of security and weighted average yields for totals of each category is presented in Note 5 beginning on page 53 of the Company's consolidated financial statements.

III. Loan Portfolio

A table setting forth the composition of the Company's loan portfolio, net of unearned discounts, at the end of each of the five most recent fiscal years appears on page 26 in Management's Discussion and Analysis of Financial Condition and Results of Operations.

A table setting forth the maturities and sensitivity to changes in interest rates of the Company's commercial and industrial loans at December 31, 2007 appears on page 26 in Management's Discussion and Analysis of Financial Condition and Results of Operations.

It is the policy of the Company to consider all customer requests for extensions of original maturity dates (rollovers), whether in whole or in part, as though each was an application for a new loan subject to standard approval criteria, including credit evaluation. Additional information appears under "Loan Portfolio" on page 26 in Management's Discussion and Analysis of Financial Condition and Results of Operations, under "Loans" in Note 1 and in Note 6 of the Company's consolidated financial statements.

A table setting forth the aggregate amount of domestic non-accrual, past due and restructured loans of the Company at the end of each of the five most recent fiscal years appears on page 27 in Management's Discussion and Analysis of Financial Condition and Results of Operations; there were no foreign loans accounted for on a nonaccrual basis, and there were no troubled debt restructurings for any types of loans. Loans contractually past due 90 days or more as to principal or interest and still accruing are loans that are both well-secured or guaranteed by financially responsible third parties and are in the process of collection.

IV. Summary of Loan Loss Experience

The information appears in Note 7 of the Company's consolidated financial statements and beginning on page 27 under "Asset Quality" in Management's Discussion and Analysis of Financial Condition and Results of Operations. A table setting forth certain information with respect to the Company's loan loss experience for each of the five most recent fiscal years appears on page 28 in Management's Discussion and Analysis of Financial Condition and Results of Operations.

The Company considers its allowance for loan losses to be adequate based upon the size and risk characteristics of the outstanding loan portfolio at December 31, 2007. Net losses within the loan portfolio are not, however, statistically predictable and are subject to various external factors that are beyond the control of the Company. Consequently, changes in conditions in the next twelve months could result in future provisions for loan losses varying from the provision recorded in 2007.

A table presenting the Company's allocation of the allowance at the end of each of the five most recent fiscal years appears on page 29 in Management's Discussion and Analysis of Financial Condition and Results of Operations. This allocation is based on estimates by management that may vary based on management's evaluation of the risk characteristics of the loan portfolio. The amount allocated to a particular loan category may not necessarily be indicative of actual future charge-offs in that loan category.

V. Deposits

Average deposits and average rates paid for each of the three most recent years are presented on page 31 in Management's Discussion and Analysis of Financial Condition and Results of Operations.

Outstanding time certificates of deposit issued from domestic and foreign offices and interest expense on domestic and foreign deposits are presented in Note 9 of the Company's consolidated financial statements.

The table providing selected information with respect to the Company's deposits for each of the three most recent fiscal years appears on page 30 in Management's Discussion and Analysis of Financial Condition and Results of Operations.

Interest expense for the three most recent fiscal years is presented in Note 9 of the Company's consolidated financial statements.

VI. Return on Assets and Equity

The Company's returns on average total assets and average shareholders' equity, dividend payout ratio and average shareholders' equity to average total assets for each of the five most recent years is presented in "Selected Financial Data" on page 19.

VII. Short-Term Borrowings

Balance and rate data for significant categories of the Company's Short-Term Borrowings for each of the three most recent years is presented in Note 10 of the Company's consolidated financial statements.

INFORMATION AVAILABLE ON OUR WEB SITE

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

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

ITEM 1A. RISK FACTORS

An investment in the Company's common stock is subject to risks inherent to the Company's business. The material risks and uncertainties that management believes affect the Company are described below. Before making an investment decision, you should carefully consider the risks and uncertainties described below together with all of the other information included or incorporated by reference in this report. The risks and uncertainties described below are not the only ones facing the Company. Additional risks and uncertainties that management is not aware of or focused on, or that management currently deems immaterial, may also impair the Company's business operations. This report is qualified in its entirety by these risk factors.

If any of the following risks adversely affect the Company's business, financial condition or results of operations, the value of the Company's common stock could decline significantly and you could lose all or part of your investment.

RISKS RELATED TO THE COMPANY'S BUSINESS

The Company Is Subject to Interest Rate Risk

The Company's earnings and cash flows are largely dependent upon its net interest income. Net interest income is the difference between interest income earned on interest-earning assets such as loans and securities and interest expense paid on interest-bearing liabilities such as deposits and borrowed funds. Interest rates are highly sensitive to many factors that are beyond the Company's control, including general economic conditions and policies of various governmental and regulatory agencies and, in particular, the Board of Governors of the Federal Reserve System. Changes in monetary policy, including changes in interest rates, could influence not only the interest the Company receives on loans and securities and the amount of interest it pays on deposits and borrowings, but such changes could also affect (i) the Company's ability to originate loans and obtain deposits, (ii) the fair value of the Company's financial assets and liabilities, and (iii) the average duration of the Company's mortgage-backed securities portfolio. If the interest rates paid on deposits and other borrowings increase at a faster rate than the interest rates received on loans and other investments, the Company's net interest income, and therefore earnings, could be adversely affected. Earnings could also be adversely affected if the interest rates received on loans and other investments fall more quickly than the interest rates paid on deposits and other borrowings.

Although management believes it has implemented effective asset and liability management strategies to reduce the potential effects of changes in interest rates on the Company's results of operations, any substantial, unexpected, prolonged change in market interest rates could have a material adverse effect on the Company's financial condition and results of operations. For further discussion related to the Company's management of interest rate risk, see “ASSET/LIABILITY MANAGEMENT” beginning on page 33 in Management’s Discussion and Analysis of Financial Condition and Results of Operations.

The Company Is Subject to Lending Risk

There are inherent risks associated with the Company’s lending activities. These risks include, among other things, the impact of changes in interest rates and changes in the economic conditions in the markets where the Company operates as well as those throughout the United States. Increases in interest rates and/or weakening economic conditions could adversely impact the ability of borrowers to repay outstanding loans or the value of the collateral securing these loans. The Company is also subject to various laws and regulations that affect its lending activities. Failure to comply with applicable laws and regulations could subject the Company to regulatory enforcement action that could result in the assessment of significant civil money penalties against the Company.

As of December 31, 2007, approximately 63.5% of the Company’s loan portfolio consisted of commercial and industrial, factored receivables, construction and commercial real estate loans. These types of loans are generally viewed as having more risk of default than residential real estate loans or consumer loans. These types of loans are also typically larger than residential real estate loans and consumer loans. Because the Company’s loan portfolio contains a significant number of commercial and industrial, construction and commercial real estate loans with relatively large balances, the deterioration of one or a few of these loans could cause a significant increase in non-performing loans. An increase in non-performing loans could result in a net loss of earnings from these loans, an increase in the provision for loan losses and an increase in loan charge-offs, all of which could have a material adverse effect on the Company’s financial condition and results of operations. For further discussion related to commercial and industrial, construction and commercial real estate loans, see “Loan Portfolio” on page 26 in Management’s Discussion and Analysis of Financial Condition and Results of Operations.

The Company’s Allowance for Loan Losses May Be Insufficient

The Company maintains an allowance for loan losses, which is a reserve established through a provision for loan losses charged to expense, that represents management’s best estimate of probable losses that have been incurred within the existing portfolio of loans. The allowance, in the judgment of management, is necessary to reserve for estimated loan losses and risks inherent in the loan portfolio. The level of the allowance reflects management’s continuing evaluation of industry concentrations; specific credit risks; loan loss experience; current loan portfolio quality; present economic, political and regulatory conditions and unidentified losses inherent in the current loan portfolio. The determination of the appropriate level of the allowance for loan losses inherently involves a high degree of subjectivity and requires the Company to make significant estimates of current credit risks and future trends, all of which may undergo material changes. Changes in economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem loans and other factors, both within and outside the Company’s control, may require an increase in the allowance for loan losses. In addition, bank regulatory agencies periodically review the Company’s allowance for loan losses and may require an increase in the provision for loan losses or the recognition of further loan charge-offs, based on judgments different than those of management. In addition, if charge-offs in future periods exceed the allowance for loan losses, the Company will need additional provisions to increase the allowance for loan losses. Any increases in the allowance for loan losses will result in a decrease in net income and, possibly, capital, and may have a material adverse effect on the Company’s financial condition and results of operations. For further discussion related to the Company’s process for determining the appropriate level of the allowance for loan losses, see “Asset Quality” beginning on page 27 in Management’s Discussion and Analysis of Financial Condition and Results of Operations.

The Company May Not Be Able to Meet the Cash Flow Requirements of Its Depositors and Borrowers or Meet Its Operating Cash Needs to Fund Corporate Expansion and Other Activities

Liquidity is the ability to meet cash flow needs on a timely basis at a reasonable cost. The liquidity of the bank is used to make loans and leases and to repay deposit liabilities as they become due or are demanded by customers. Liquidity policies and limits are established by the board of directors. The overall liquidity position of the bank and the parent company are regularly monitored to ensure that various alternative strategies exist to cover unanticipated events that could affect liquidity. Funding sources include Federal funds purchased, securities sold under repurchase agreements and non-core deposits. The bank is a member of the Federal Home Loan Bank of New York, which provides funding through advances to members that are collateralized with mortgage-related assets. We maintain a portfolio of securities that can be used as a secondary source of liquidity. The bank also can borrow through the Federal Reserve Bank’s discount window.

If we were unable to access any of these funding sources when needed, we might be unable to meet customers’ needs, which could adversely impact our financial condition, results of operations, cash flows, and level of regulatory-qualifying capital. For further discussion, see “Liquidity Risk” beginning on page 34 in Management’s Discussion and Analysis of Financial Condition and Results of Operations.

Sterling Bancorp Relies on Dividends from Its Subsidiaries

Sterling Bancorp is a separate and distinct legal entity from its subsidiaries. It receives dividends from its subsidiaries. These dividends are the principal source of funds to pay dividends on the parent company’s common stock and interest and principal on its debt. Various federal and/or state laws and regulations limit the amount of dividends that Sterling National Bank and certain non-bank subsidiaries may pay to the parent company. Also, Sterling Bancorp’s right to participate in a distribution of assets upon a subsidiary’s liquidation or reorganization is subject to the prior claims of the subsidiary’s creditors. In the event Sterling National Bank is unable to pay dividends to Sterling Bancorp, Sterling Bancorp may not be able to service debt, pay obligations or pay dividends on the Company’s common stock. The inability to receive dividends from Sterling National Bank could have a material adverse effect on the Company’s business, financial condition and results of operations. See “Supervision and Regulation” on pages 3–9 and Note 15 of the Company’s consolidated financial statements.

The Company Is Subject to Environmental Liability Risk Associated with Lending Activities

A portion of the Company’s loan portfolio is secured by real property. During the ordinary course of business, the Company may foreclose on and take title to properties securing certain loans. In doing so, there is a risk that hazardous or toxic substances could be found on these properties. If hazardous or toxic substances are found, the Company may be liable for remediation costs, as well as for personal injury and property damage. Environmental laws may require the Company to incur substantial expense and may materially reduce the affected property’s value or limit the Company’s ability to use or sell the affected property. Future laws or more stringent interpretations or enforcement policies with respect to existing laws may increase the Company’s exposure to environmental liability. Although the Company has policies and procedures to perform an environmental review before initiating any foreclosure action on real property, these reviews may not be sufficient to detect all potential environmental hazards. The remediation costs and any other financial liabilities associated with an environmental hazard could have a material adverse effect on the Company’s financial condition and results of operations.

The Company’s Profitability Depends Significantly on Local and Overall Economic Conditions

The Company’s success depends significantly on the economic conditions of the communities it serves and the general economic conditions of the United States. The Company has operations in New York City and the New York metropolitan area, as well as Virginia and other mid-Atlantic territories, and conducts business throughout the United States. The economic conditions in these areas and throughout the United States have a significant impact on the demand for the Company’s products and services as well as the ability of the Company’s customers to repay loans, the value of the collateral securing loans and the stability of the Company’s deposit funding sources. A significant decline in general economic conditions, caused by inflation, recession, acts of terrorism, outbreak of hostilities or other international or domestic occurrences, unemployment, changes in securities markets, acts of God or other factors could impact these local economic conditions and, in turn, have a material adverse effect on the Company’s financial condition and results of operations.

Severe Weather, Natural Disasters or Other Acts of God, Acts of War or Terrorism and Other External Events Could Significantly Impact the Company’s Business

Severe weather, natural disasters or other acts of God, acts of war or terrorism and other adverse external events could have a significant impact on the Company’s ability to conduct business. Such events could affect the stability of the Company’s deposit base, impair the ability of borrowers to repay outstanding loans, impair the value of collateral securing loans, cause significant property damage, result in loss of revenue and/or cause the Company to incur additional expenses. Although management has established disaster recovery policies and procedures, the occurrence of any such event could have a material adverse effect on the Company’s business, which, in turn, could have a material adverse effect on the Company’s financial condition and results of operations.

The Company Operates in a Highly Competitive Industry and Market Area

The Company faces substantial competition in all areas of its operations from a variety of different competitors, many of which are larger and may have more financial resources. Such competitors primarily include national, regional, and community banks within the various markets the Company operates. Additionally, various out-of-state banks have entered the market areas in which the Company currently operates. The Company also faces competition from many other types of financial institutions, including, without limitation, savings and loan associations, credit unions, finance companies, brokerage firms, insurance companies, factoring companies and other financial intermediaries. The financial services industry could become even more competitive as a result of legislative, regulatory and technological changes and continued consolidation. Banks, securities firms and insurance companies can merge under the umbrella of a financial holding company, which can offer virtually any type of financial service, including banking, securities underwriting, insurance (both

agency and underwriting) and merchant banking. Also, technology has lowered barriers to entry and made it possible for non-banks to offer products and services traditionally provided by banks, such as automatic transfer and automatic payment systems. Many of the Company's competitors have fewer regulatory constraints and may have lower cost structures. Additionally, due to their size, many competitors may be able to achieve economies of scale and, as a result, may offer a broader range of products and services as well as better pricing for those products and services than the Company does.

The Company's ability to compete successfully depends on a number of factors, including, among other things:

- The ability to develop, maintain and build upon customer relationships based on top quality service, high ethical standards and safe, sound assets.
- The ability to expand the Company's market position.
- The scope, relevance and pricing of products and services offered to meet customer needs and demands.
- The rate at which the Company introduces new products and services relative to its competitors.
- Customer satisfaction with the Company's level of service.
- Industry and general economic trends.

Failure to perform in any of these areas could significantly weaken the Company's competitive position, which could adversely affect the Company's growth and profitability, which, in turn, could have a material adverse effect on the Company's financial condition and results of operations.

The Company Is Subject to Extensive Government Regulation and Supervision

The Company, primarily through the parent company and the bank and certain non-bank subsidiaries, is subject to extensive federal and state regulation and supervision. Banking regulations are primarily intended to protect depositors' funds, federal deposit insurance funds and the banking system as a whole, not shareholders. These regulations affect the Company's lending practices, capital structure, investment practices, dividend policy and growth, among other things. Congress and federal regulatory agencies continually review banking laws, regulations and policies for possible changes. Changes to statutes, regulations or regulatory policies, including changes in interpretation or implementation of statutes, regulations or policies, could affect the Company in substantial and unpredictable ways. Such changes could subject the Company to additional costs, limit the types of financial services and products the Company may offer and/or increase the ability of non-banks to offer competing financial services and products, among other things. Failure to comply with laws, regulations or policies could result in sanctions by regulatory agencies, civil money penalties and/or reputation damage, which could have a material adverse effect on the Company's business, financial condition and results of operations. While the Company has policies and procedures designed to prevent any such violations, there can be no assurance that such violations will not occur. See "Supervision and Regulation" on pages 3–9.

The Company's Controls and Procedures May Fail or Be Circumvented

The Company's internal controls, disclosure controls and procedures, and corporate governance policies and procedures can provide only reasonable, not absolute, assurances that the objectives of the system are met. Any failure or circumvention of the Company's controls and procedures or failure to comply with regulations related to controls and procedures could have a material adverse effect on the Company's business, results of operations and financial condition.

The Company May Be Subject to a Higher Effective Tax Rate if Sterling Real Estate Holding Company, Inc. Fails to Qualify as a Real Estate Investment Trust ("REIT")

Sterling Real Estate Holding Company Inc. ("SREHC") operates as a REIT for federal income tax purposes. SREHC was established to acquire, hold and manage mortgage assets and other authorized investments to generate net income for distribution to its shareholders.

For an entity to qualify as a REIT, it must satisfy the following six asset tests under the Internal Revenue Code each quarter: (1) 75% of the value of the REIT's total assets must consist of real estate assets, cash and cash items, and government securities; (2) not more than 25% of the value of the REIT's total assets may consist of securities, other than those includible under the 75% test; (3) not more than 5% of the value of its total assets may consist of securities of any one issuer, other than those securities includible under the 75% test or securities of taxable REIT subsidiaries; (4) not more than 10% of the outstanding voting power of any one issuer may be held, other than those securities includible under the 75% test or securities of taxable REIT subsidiaries; (5) not more than 10% of the total value of the outstanding securities of any one issuer may be held, other than those securities includible under the 75% test or securities of taxable REIT subsidiaries; and (6) a REIT cannot own securities in one or more taxable REIT subsidiaries which comprise more than 20% of its total assets. At December 31, 2007, SREHC met all six quarterly asset tests.

Also, a REIT must satisfy the following two gross income tests each year: (1) 75% of its gross income must be from qualifying income closely connected with real estate activities; and (2) 95% of its gross income must be derived from sources qualifying for the 75% test plus dividends, interest, and gains from the sale of securities. In addition, a REIT must distribute at least 90% of its taxable income for the taxable year, excluding any net capital gains, to maintain its non-taxable status for federal income tax purposes. For 2007, SREHC had met the two annual income tests and the distribution test.

If SREHC fails to meet any of the required provisions and, therefore, does not qualify to be a REIT, the Company's effective tax rate would increase.

The Current New York State Executive Budget Proposals Would, If Enacted, Increase New York State Tax on the Company's REIT

Provisions in the 2008-09 New York State Executive Budget Proposal would, if enacted, increase the taxes imposed by New York State on the Company's REIT. The Company cannot predict whether or in what form any such proposal would be enacted.

New Lines of Business or New Products and Services May Subject the Company to Additional Risks

The Company may implement new lines of business or offer new products and services within existing lines of business. There are substantial risks and uncertainties associated with these efforts, particularly in instances where the markets are not fully developed. In developing and marketing new lines of business and/or new products and services, the Company may invest significant time and resources. Initial timetables for the introduction and development of new lines of business and/or new products or services may not be achieved and price and profitability targets may not prove feasible. External factors, such as compliance with regulations, competitive alternatives, and shifting market preferences, may also impact the successful implementation of a new line of business or a new product or service. Furthermore, any new line of business and/or new product or service could have a significant impact on the effectiveness of the Company's system of internal controls. Failure to manage these risks successfully in the development and implementation of new lines of business or new products or services could have a material adverse effect on the Company's business, results of operations and financial condition.

Potential Acquisitions May Disrupt the Company's Business and Dilute Shareholder Value

The Company seeks merger or acquisition partners that are compatible and have experienced management and possess either significant market presence or have potential for improved profitability through financial management, economies of scale or expanded services. Acquiring other banks, businesses, or branches involves various risks commonly associated with acquisitions, including, among other things:

- Potential exposure to unknown or contingent liabilities of the target company.
- Exposure to potential asset quality issues of the target company.
- Difficulty and expense of integrating the operations and personnel of the target company.
- Potential disruption to the Company's business.
- Potential diversion of the Company's management time and attention.
- The possible loss of key employees and customers of the target company.
- Difficulty in estimating the value of the target company.
- Potential changes in banking or tax laws or regulations that may affect the target company.

The Company regularly evaluates merger and acquisition opportunities and conducts due diligence activities related to possible transactions with other financial institutions and financial services companies. As a result, merger or acquisition discussions and, in some cases, negotiations may take place and future mergers or acquisitions involving cash, debt or equity securities may occur at any time. Acquisitions typically involve the payment of a premium over book and market values, and, therefore, some dilution of the Company's tangible book value and net income per common share may occur in connection with any future transaction. Furthermore, failure to realize the expected revenue increases, cost savings, increases in geographic or product presence, and/or other projected benefits from an acquisition could have a material adverse effect on the Company's financial condition and results of operations.

The Company May Not Be Able to Attract and Retain Skilled People

The Company’s success depends, in large part, on its ability to attract and retain key people. Competition for the best people in most activities engaged in by the Company can be intense, and the Company may not be able to hire people or to retain them. The unexpected loss of services of one or more of the Company’s key personnel could have a material adverse impact on the Company’s business because of their skills, knowledge of the Company’s market, years of industry experience and the difficulty of promptly finding qualified replacement personnel. The Company has employment agreements with two of its senior officers.

The Company’s Information Systems May Experience an Interruption or Breach in Security

The Company relies heavily on communications and information systems to conduct its business. Any failure, interruption or breach in security of these systems could result in failures or disruptions in the Company’s customer relationship management, general ledger, deposit, loan and other systems. While the Company has policies and procedures designed to prevent or limit the effect of the failure, interruption or security breach of its information systems, there can be no assurance that any such failures, interruptions or security breaches will not occur or, if they do occur, that they will be adequately addressed. The occurrence of any failures, interruptions or security breaches of the Company’s information systems could damage the Company’s reputation, result in a loss of customer business, subject the Company to additional regulatory scrutiny, or expose the Company to civil litigation and possible financial liability, any of which could have a material adverse effect on the Company's reputation, financial condition and results of operations.

The Company Continually Encounters Technological Change

The financial services industry is continually undergoing rapid technological change with frequent introductions of new technology-driven products and services. The Company's future success depends, in part, upon its ability to address the needs of the customers by using technology to provide products and services that will satisfy customer demands, as well as to create additional efficiencies in the Company's operations. Many of the Company's competitors have substantially greater resources to invest in technological improvements. The Company may not be able to implement effectively new technology-driven products and services or be successful in marketing these products and services to its customers. Failure to keep pace successfully with technological change affecting the financial services industry could have a material adverse impact on the Company's business and, in turn, the Company's financial condition and results of operations.

The Company Is Subject to Claims and Litigation Pertaining to Fiduciary Responsibility

From time to time, customers make claims and take legal action pertaining to the Company's performance of its fiduciary responsibilities. Whether customer claims and legal action related to the Company's performance of its fiduciary responsibilities are founded or unfounded, if such claims and legal actions are not resolved in a manner favorable to the Company they may result in significant financial liability and/or adversely affect the market perception of the Company and its products and services as well as impact customer demand for those products and services. Any fiduciary liability or reputation damage could have a material adverse effect on the Company's business, which, in turn, could have a material adverse effect on the Company's financial condition and results of operations.

RISKS ASSOCIATED WITH THE COMPANY'S COMMON STOCK

The Company's Stock Price Can Be Volatile

Stock price volatility may make it more difficult to resell the Company's common stock when desired and at an attractive price. The Company's stock price can fluctuate significantly in response to a variety of factors, including, among other factors:

- Actual or anticipated variations in quarterly results of operations.
- Recommendations by securities analysts.
- Operating and stock price performance of other companies that investors deem comparable to the Company.
- News reports relating to trends, concerns and other issues in the financial services industry.
- Perceptions in the marketplace regarding the Company and/or its competitors.
- New technology used, or services offered, by competitors.
- Significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving the Company or its competitors.
- Failure to integrate acquisitions or realize anticipated benefits from acquisitions.
- Changes in government regulation.
- Geopolitical conditions such as acts or threats of terrorism or military conflicts.

General market fluctuations, industry factors and general economic and political conditions and events, such as economic slowdowns or recessions, interest rate changes or credit loss trends, could also cause the Company's stock price to decrease regardless of operating results.

The Trading Volume in the Company's Common Stock Is Less Than That of Other Larger Financial Services Companies

Although the Company’s common stock is listed for trading on the New York Stock Exchange, the trading volume in its common stock is less than that of other larger financial services companies. A public trading market having the desired characteristics of depth, liquidity and orderliness depends on the presence in the marketplace of willing buyers and sellers of the Company’s common stock at any given time. This presence depends on the individual decisions of investors and general economic and market conditions over which the Company has no control. Given the trading volume of the Company’s common stock, significant sales of the Company’s common stock, or the expectation of these sales, could cause the Company’s stock price to fall.

An Investment in the Company’s Common Stock Is Not an Insured Deposit

The Company’s common stock is not a bank deposit and, therefore, is not insured against loss by the Federal Deposit Insurance Corporation, any other deposit insurance fund or by any other public or private entity. Investment in the Company’s common stock is inherently risky for the reasons described in this “Risk Factors” section and elsewhere in this report and is subject to the same market forces that affect the price of common stock in any company. As a result, if you acquire the Company’s common stock, you may lose some or all of your investment.

The Company's Certificate of Incorporation, By-Laws and Shareholders Rights Plan as Well as Certain Banking Laws May Have an Anti-Takeover Effect

Provisions of the Company's certificate of incorporation and by-laws, federal banking laws, including regulatory approval requirements, and the Company's stock purchase rights plan could make it more difficult for a third party to acquire the Company, even if doing so would be perceived to be beneficial to the Company's shareholders. The combination of these provisions effectively inhibits a non-negotiated merger or other business combination, which, in turn, could adversely affect the market price of the Company's common stock.

RISKS ASSOCIATED WITH THE COMPANY'S INDUSTRY

The Earnings of Financial Services Companies Are Significantly Affected by General Business and Economic Conditions

The Company's operations and profitability are impacted by general business and economic conditions in the United States and abroad. These conditions include short-term and long-term interest rates, inflation, money supply, political issues, legislative and regulatory changes, fluctuations in both debt and equity capital markets, broad trends in industry and finance, and the strength of the U.S. economy and the local economies in which the Company operates, all of which are beyond the Company's control. A deterioration in economic conditions could result in an increase in loan delinquencies and non-performing assets, decreases in loan collateral values and a decrease in demand for the Company's products and services, among other things, any of which could have a material adverse impact on the Company's financial condition and results of operations.

Financial Services Companies Depend on the Accuracy and Completeness of Information About Customers and Counterparties

In deciding whether to extend credit or enter into other transactions, the Company may rely on information furnished by or on behalf of customers and counterparties, including financial statements, credit reports and other financial information. The Company may also rely on representations of those customers, counterparties or other third parties, such as independent auditors, as to the accuracy and completeness of that information. Reliance on inaccurate or misleading financial statements, credit reports or other financial information could have a material adverse impact on the Company's business and, in turn, the Company's financial condition and results of operations.

Consumers May Decide Not to Use Banks to Complete Their Financial Transactions

Technology and other changes are allowing parties to complete financial transactions that historically have involved banks through alternative methods. For example, consumers can now maintain funds that would have historically been held as bank deposits in brokerage accounts or mutual funds. Consumers can also complete transactions such as paying bills and/or transferring funds directly without the assistance of banks. The process of eliminating banks as intermediaries, known as "disintermediation," could result in the loss of fee income, as well as the loss of customer deposits and related income generated from those deposits. The loss of these revenue streams and these lower-cost deposits as a source of funds could have a material adverse effect on the Company's financial condition and results of operations.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The principal offices of the Company occupy one floor at 650 Fifth Avenue, New York, N.Y., consisting of approximately 14,400 square feet. The lease for these premises expires April 30, 2016. Rental commitments to the expiration date approximate $7,379,000.

The bank also maintains operating leases for nine branch offices, the International Banking Facility, an Operations Center, and additional office space in New York City, Nassau, Suffolk and Westchester counties (New York) and in Charlotte (North Carolina) with an aggregate of approximately 143,000 square feet. The aggregate office rental commitments for these premises approximates $14,590,000. The leases have expiration dates ranging from 2008 through 2018 with varying renewal options. The bank owns free and clear (not subject to a mortgage) a building in which it maintains a branch located in Forest Hills, Queens.

ITEM 3. LEGAL PROCEEDINGS

In the normal course of business there are various legal proceedings pending against the Company. Management, after consulting with counsel, is of the opinion that there should be no material liability with respect to such proceedings, and accordingly no provision has been made in the

Company’s consolidated financial statements.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matter was submitted to a vote of security holders in the fourth quarter of the fiscal year covered by this report.

EXECUTIVE OFFICERS OF THE REGISTRANT

This information is included pursuant to Instruction 3 to Item 401(b) of SEC Regulation S-K:

Name of Executive	Title	Age	Held Executive Office Since
Louis J. Cappelli	Chairman of the Board and Chief Executive Officer, Director	77	1967
John C. Millman	President, Director	65	1986
John W. Tietjen	Executive Vice President and Chief Financial Officer	63	1989
Howard M. Applebaum	Senior Vice President	49	2002
Eliot S. Robinson	Executive Vice President of Sterling National Bank	65	1998

All executive officers who are employees of the parent company are elected annually by the Board of Directors and serve at the pleasure of the Board. The executive officer who is not an employee of the parent company is elected annually by, and serves at the pleasure of, the board of directors of the bank. There are no arrangements or understandings between any of the foregoing executive officers and any other person or persons pursuant to which he was selected as an executive officer.

On March 10, 2008, the Compensation Committee of the Board of Directors extended the terms of the Company's Employment Agreements with Mr. Cappelli and Mr. Millman to December 31, 2012 and December 31, 2010, respectively.

The Company's 2007 Domestic Company Section 303A Annual CEO Certification was filed (without qualifications) with the New York Stock Exchange. The certifications under Section 302 of the Sarbanes-Oxley Act are filed as exhibits to this annual report of Form 10-K.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The parent company's common stock is traded on the New York Stock Exchange under the symbol STL. Information regarding the quarterly prices of the common stock is presented in Note 25 on page 80. Information regarding the average common shares outstanding and dividends per common share is presented in the Consolidated Statements of Income on page 40. Information regarding legal restrictions on the ability of the bank to pay dividends is presented in Note 15 on page 64. Although such restrictions do not apply to the payment of dividends by the parent company to its shareholders, such dividends may be limited by other factors, such as the requirement to maintain adequate capital under the risk-based capital regulations described in Note 21 beginning on page 74. As of March 5, 2008, there were 1,466 shareholders of record of our common shares.

During the fiscal years ended December 31, 2006 and 2007, the following dividends were declared on our common shares on the dates indicated: February 23, 2006: $.19; May 2, 2006: $.19; August 17, 2006: $.19; November 16, 2006: $.19; February 15, 2007: $.19; May 3, 2007: $.19; August 16, 2007: $.19; and November 15, 2007: $.19.

The Board of Directors initially authorized the repurchase of common shares in 1997 and since then has approved increases in the number of common shares that the Company is authorized to repurchase. The latest increase was announced on February 15, 2007, when the Board of Directors increased the Company's authority to repurchase common shares by an additional 800,000 shares. This increased the Company's authority to repurchase shares to approximately 933,000 common shares.

Under its share repurchase program, the Company buys back common shares from time to time. The Company did not repurchase any of its common shares during the fourth quarter of 2007. At December 31, 2007, the maximum number of shares that may yet be repurchased under the share repurchase program was 870,963.

For information regarding securities authorized for issuance under the Company's equity compensation plan, see Item 12 on page 87.

The following performance graph compares for the fiscal years ended December 31, 2003, 2004, 2005, 2006 and 2007 (a) the yearly cumulative total shareholder return (i.e., the change in share price plus the cumulative amount of dividends, assuming dividend reinvestment, divided by the initial share price, expressed as a percentage) on Sterling's common shares, with (b) the cumulative total return of the Standard & Poor's 500 Stock Index, and with (c) the cumulative total return on the KBW 50 Index (a market-capitalization weighted bank-stock index):

CUMULATIVE TOTAL RETURNS
of $100 investment made on December 31, 2002

	12/02	12/03	12/04	12/05	12/06	12/07
Sterling Bancorp	100.00	139.27	170.29	129.33	134.34	97.81
S&P 500	100.00	128.68	142.69	149.70	173.34	182.87
KBW 50	100.00	134.03	147.50	149.23	178.18	137.16

ITEM 6. SELECTED FINANCIAL DATA

The information appears on page 19. All such information should be read in conjunction with the consolidated financial statements and notes thereto.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The information appears on pages 20–37 and supplementary quarterly data appears in Note 25 of the Company's consolidated financial statements. All such information should be read in conjunction with the consolidated financial statements and the notes thereto.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information appears on pages 33–35 under the caption "ASSET/LIABILITY MANAGEMENT." All such information should be read in conjunction with the consolidated financial statements and notes thereto.

Sterling Bancorp
SELECTED FINANCIAL DATA [1]

(dollars in thousands except per share data)	**2007**	2006	2005	2004	2003
SUMMARY OF OPERATIONS					
Total interest income	**$ 121,452**	$ 116,586	$ 101,888	$ 86,228	$ 80,251
Total interest expense	**47,560**	42,021	26,463	18,351	16,115
Net interest income	**73,892**	74,565	75,425	67,877	64,136
Provision for loan losses	**5,853**	4,503	5,214	6,139	5,412
Net securities gains/(losses)	**188**	(443)	337	1,256	551
Noninterest income, excluding net securities gains/(losses)	**35,536**	34,101	33,679	32,683	30,946
Noninterest expenses	**79,809**	77,355	67,654	61,929	56,182
Income before taxes	**23,954**	26,365	36,573	33,748	34,039
Provision for income taxes	**8,560**	5,367	13,110	11,074	12,605
Income from continuing operations	**15,394**	20,998	23,463	22,674	21,434
(Loss)/income from discontinued operations, net of tax	**(795)**	(603)	564	1,930	2,469
Loss on sale of discontinued operations, net of tax	**—**	(9,635)	—	—	—
Net income	**14,599**	10,760	24,027	24,604	23,903
Income from continuing operations					
Per average common share—basic	**0.85**	1.12	1.22	1.19	1.13
—diluted	**0.83**	1.09	1.19	1.13	1.08
Net income					
Per average common share—basic	**0.80**	0.57	1.25	1.29	1.26
—diluted	**0.79**	0.56	1.22	1.23	1.20
Dividends per common share	**0.76**	0.76	0.73	0.63	0.54
YEAR END BALANCE SHEETS					
Investment securities	**625,241**	569,324	715,299	680,220	683,118
Loans held for sale	**23,756**	33,320	40,977	37,059	40,556
Loans held in portfolio, net of unearned discounts	**1,187,124**	1,112,602	1,012,057	906,762	772,919
Other assets—discontinued operations	**—**	1,663	116,250	114,596	127,053
Total assets, including discontinued operations	**2,012,649**	1,885,957	2,056,042	1,871,112	1,759,824
Noninterest-bearing deposits	**535,351**	546,443	510,884	511,307	474,092
Interest-bearing deposits	**991,635**	975,587	937,442	832,544	737,649
Short-term borrowings	**205,418**	83,776	281,838	150,825	189,489
Long-term debt	**65,774**	45,774	85,774	135,774	135,774
Shareholders' equity	**121,070**	132,263	147,587	148,704	143,262
AVERAGE BALANCE SHEETS					
Investment securities	**586,463**	647,602	713,629	689,569	593,005
Loans held for sale	**43,919**	40,992	53,948	46,395	71,779
Loans held in portfolio, net of unearned discounts	**1,069,453**	1,002,688	890,085	778,272	673,412
Total assets, including discontinued operations	**1,892,751**	1,944,776	1,931,101	1,777,720	1,587,623
Noninterest-bearing deposits	**444,672**	439,064	452,632	415,664	370,554
Interest-bearing deposits	**1,055,696**	951,333	936,665	830,950	683,748
Short-term borrowings	**131,573**	255,204	198,879	166,804	179,002

Long-term debt	**44,130**	59,938	106,514	135,774	139,870
Shareholders’ equity	**124,140**	143,178	149,836	142,536	134,150
RATIOS					
Return on average total assets	**0.81%**	1.13%	1.29%	1.36%	1.45%
Return on average tangible shareholders’ equity[2]	**15.20**	17.43	18.23	18.68	18.97
Return on average shareholders’ equity	**12.40**	14.67	15.66	15.91	15.98
Dividend payout ratio	**89.35**	67.70	59.82	53.39	47.17
Average shareholders’ equity to average total assets	**6.56**	7.70	8.23	8.56	9.09
Net interest margin (tax-equivalent basis)	**4.49**	4.64	4.76	4.63	4.83
Loans/assets, year end[3]	**60.16**	60.81	54.29	53.73	49.82
Net charge-offs/loans, year end[4]	**0.49**	0.43	0.41	0.43	0.41
Nonperforming loans/loans, year end[3]	**0.53**	0.51	0.37	0.23	0.37
Allowance/loans, year end[4]	**1.27**	1.46	1.52	1.59	1.65

[1] All data presented is from continuing operations unless indicated otherwise.

[2] Average tangible shareholders’ equity is average shareholders’ equity less average goodwill.

[3] In this calculation, the term “loans” means loans held for sale and loans held in portfolio.

[4] In this calculation, the term “loans” means loans held in portfolio.

Sterling Bancorp

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following commentary presents management's discussion and analysis of the financial condition and results of operations of Sterling Bancorp (the "parent company"), a financial holding company under the Bank Holding Company Act of 1956, as amended by the Gramm-Leach-Bliley Act of 1999, and its subsidiaries, principally Sterling National Bank (the "bank"). Throughout this discussion and analysis, the term the "Company" refers to Sterling Bancorp and its subsidiaries. This discussion and analysis should be read in conjunction with the consolidated financial statements and selected financial data contained elsewhere in this annual report. Certain reclassifications have been made to prior years' financial data to conform to current financial statement presentations.

FORWARD-LOOKING STATEMENTS AND FACTORS THAT COULD AFFECT FUTURE RESULTS

Certain statements contained or incorporated by reference in this annual report on Form 10-K, 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 regarding matters that are not historical facts, are "forward-looking statements" as defined in the Securities Exchange Act of 1934. These statements are not historical facts but instead are subject to numerous assumptions, risks and uncertainties, and represent only our belief regarding future events, many of which, by their nature, are inherently uncertain and outside our control. Any forward-looking statements we may make speak only as of the date on which such statements are made. Our actual results and financial position may differ materially from the anticipated results and financial condition indicated in or implied by these forward-looking statements.

Factors that could cause our actual results to differ materially from those in the forward-looking statements include, but are not limited to, the following: inflation, interest rates, market and monetary fluctuations; geopolitical developments including acts of war and terrorism and their impact on economic conditions; the effects of, and changes in, trade, monetary and fiscal policies and laws, including interest rate policies of the Federal Reserve Board; changes, particularly declines, in general economic conditions and in the local economies in which the Company operates; the financial condition of the Company's borrowers; competitive pressures on loan and deposit pricing and demand; changes in technology and their impact on the marketing of new products and services and the acceptance of these products and services by new and existing customers; the willingness of customers to substitute competitors' products and services for the Company's products and services; the impact of changes in financial services laws and regulations (including laws concerning taxes, banking, securities and insurance); changes in accounting principles, policies and guidelines; the risks and uncertainties described in Item 1A. Risk Factors on pages 10–16; other risks and uncertainties described from time to time in press releases and other public filings; and the Company's performance in managing the risks involved in any of the foregoing. The foregoing list of important factors is not exclusive, and we will not update any forward-looking statement, whether written or oral, that may be made from time to time.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The accounting and reporting policies followed by the Company conform, in all material respects, to U.S. generally accepted accounting principles. In preparing the consolidated financial statements, management has made estimates, assumptions and judgments based on information available as of the date of the financial statements; accordingly, as this information changes, the financial statements may reflect different estimates, assumptions and judgments. Certain policies inherently have greater reliance on the use of estimates, assumptions and judgments and as such have a greater possibility of producing results that could be materially different than originally reported. Estimates, assumptions and judgments are necessary when assets and liabilities are required to be recorded at fair value, when a decline in the value of an asset not carried on the financial statements at fair value warrants an impairment write-down or valuation allowance to be established, or when an asset or liability must be recorded contingent upon a future event. Carrying assets and liabilities at fair value inherently results in more financial statement volatility. The fair values and the information used to record valuation adjustments for certain assets and liabilities are based either on quoted market prices or are provided by other third-party sources, when readily available. Actual results could differ significantly from those estimates.

The Company's accounting policies are fundamental to understanding management's discussion and analysis of financial condition and results of operations. The most significant accounting policies followed by the Company are presented in Note 1 beginning on page 45. The accounting for factoring transactions also is discussed under "Business Operations—The Bank—Commercial Lending, Asset-Based Financing and Factoring/Accounts Receivable Management" on pages 1 and 2.

The Company has identified its policies on the allowance for loan losses and income tax liabilities to be critical because management has to make subjective and/or complex judgments about matters that are inherently uncertain and could be subject to revision as new information becomes available. Additional information on these policies can be found in Note 1 to the consolidated financial statements.

The allowance for loan losses represents management's estimate of probable credit losses inherent in the loan portfolio. Determining the amount of the allowance for loan losses is considered a critical accounting estimate because it requires significant judgment and the use of estimates related to the amount and timing of expected future cash flows on impaired loans, estimated losses on pools of homogeneous loans based on historical loss experience, and consideration of current economic trends and conditions, all of which may be susceptible to significant change. The methodology used to determine the allowance for loan losses is outlined in Note 1 to the consolidated financial statements and a discussion of the factors driving changes in the amount of the allowance for loan losses is included under the caption "Asset Quality" beginning on page 27.

The objectives of accounting for income taxes are to recognize the amount of taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequences of events that have been recognized in an entity's financial statements or tax returns. Judgment is required in assessing the future tax consequences of events that have been recognized in the Company's consolidated financial statements or tax returns. Fluctuations in the actual outcome of these future tax consequences could impact the Company's consolidated financial condition or results of operations. In connection with determining its income tax provision under statement of Financial Accounting Standard No. 109 and Financial Accounting Standards Board Interpretation No. 48, the Company maintains a reserve related to certain tax positions and strategies that management believes contain an element of uncertainty. The Company evaluates each of its tax positions and strategies periodically to determine whether the reserve continues to be appropriate. Additional discussion on the accounting for income taxes is presented in Notes 1 and 18 of the Company's consolidated financial statements.

OVERVIEW

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

As of April 3, 2006, Sterling Resource Funding Corp., a subsidiary of the bank, completed the acquisition of the business and certain assets of PL Services, L.P.

In September 2006, the Company sold the business conducted by Sterling Financial Services ("Sterling Financial"). In accordance with U.S. generally accepted accounting principles, the assets, liabilities and earnings/loss of the business conducted by Sterling Financial have been shown separately as discontinued operations in the consolidated balance sheets and consolidated statements of income for all periods presented.

For purposes of the following discussion, except for the section entitled "Discontinued Operations," average balances, average rates, income and expenses associated with Sterling Financial have been excluded from continuing operations and reported separately for all periods presented.

The interest expense allocated to discontinued operations was based on the actual average balances, interest expenses and average rate on each category of interest-bearing liabilities, with the average rate applied to the aggregate average loan balances to determine the funding cost. Interest expense allocated to the funding supporting the Sterling Financial net loans for these periods was assigned based on the average net loan balances proportionately funded by all interest-bearing liabilities at an average rate equal to the cost of each applied to its average balance for the period. The "Rate/Volume Analysis" was prepared on the same basis, as was the "Average Balance Sheets."

In 2007, the bank's average earning assets represented approximately 99.7% of the Company's average earning assets. Loans represented 64.4% and investment securities represented 34.1% of the bank's average earning assets in 2007.

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

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

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

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

INCOME STATEMENT ANALYSIS

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

COMPARISON OF THE YEARS 2007 AND 2006

The Company reported income from continuing operations, after income taxes, for the year ended December 31, 2007 of $15.4 million, representing $0.83 per share, calculated on a diluted basis, compared to $ 21.0 million, or $1.09 per share, calculated on a diluted basis, for the year 2006. This decrease reflected higher interest and noninterest expenses, a higher provision for loan losses and a higher provision for income taxes, which were partially offset by increases in interest and noninterest income.

Net Interest Income

Net interest income, on a tax-equivalent basis, was $74.4 million for 2007 compared to $75.3 million for 2006. Net interest income was positively impacted by higher average loan and federal funds sold balances, a higher yield on investment securities and lower balances for borrowed funds and negatively impacted by lower average investment securities outstandings, lower yield on loans and higher average balances coupled with higher rates paid for interest-bearing deposits. The net interest margin, on a tax-equivalent basis, was 4.49% for 2007 compared to 4.64% for 2006. The net interest margin was impacted by the higher interest rate environment during most of 2007 and by the earning asset and the funding mix. Additionally, the more competitive pricing practices in the Company’s markets caused the cost of interest-bearing deposits to increase more rapidly than the yield on interest-earning assets.

Total interest income, on a tax-equivalent basis, aggregated $121.9 million for 2007, up from $117.3 million for 2006. The tax equivalent yield on interest-earning assets was 7.36% for 2007 compared to 7.23% for 2006.

Interest earned on the loan portfolio amounted to $92.3 million for 2007, up $5.4 million from the year ago period. Average loan balances amounted to $1,113.4 million, an increase of $69.7 million from an average of $1,043.7 million in the prior year. The increase in average loans (across many segments of the Company’s loan portfolio), primarily due to the acquisition of Sterling Resource Funding Corp. coupled with the Company’s other business development activities and the ongoing consolidation of banks in the Company’s marketing area, accounted for a $6.7 million increase in interest earned on loans. The decrease in the yield on the loan portfolio to 8.83% for 2007 from 8.97% for 2006 was primarily attributable to the mix of average outstanding balances among the components of the loan portfolio partially offset by the higher interest rate environment during most of 2007 and the competitive pricing practice in the Company’s markets.

Interest earned on the securities portfolio, on a tax-equivalent basis, decreased to $28.3 million for 2007 from $30.1 million in the prior year. Average outstandings decreased to $586.5 million (34.0% of average earning assets) for 2007 from $647.6 million (38.1% of average earning assets) in the prior year. The average yield increased to 4.83% for 2007 compared to 4.65% for 2006. The average life of the securities portfolio was approximately 6.2 years at December 31, 2007 compared to 4.7 years at December 31, 2006.

Total interest expense increased to $47.6 million for 2007 from $42.0 million for 2006, primarily due to higher rates paid and higher average balances for interest-bearing deposits. Partially offsetting those increases was the impact of lower borrowed funds balances.

Interest expense on deposits increased to $38.8 million for 2007 from $29.0 million for 2006 due to an increase in the cost of those funds coupled with higher average balances. The average rate paid on interest-bearing deposits was 3.67% in 2007 which was 62 basis points higher than the prior year. The increase in average costs of deposits reflects the higher interest rate environment during most of 2007 coupled with the more competitive pricing practices in the Company's market. Average interest-bearing deposit balances increased to $1,055.7 million for 2007 from $951.3 million for 2006 reflecting the benefit derived from the Company's business development activities.

Interest expense on borrowings decreased to $8.8 million for 2007 from $15.5 million for 2006 primarily due to the lower average balances for borrowed funds. Average borrowed funds balances decreased to $175.7 million for 2007 from $315.1 million in 2006 reflecting less reliance by the Company on wholesale funding.

Provision for Loan Losses

Based on management's continuing evaluation of the loan portfolio (discussed under "Asset Quality" below), the provision for loan losses for 2007 increased to $5.9 million from $4.5 million for the prior year. Factors affecting the level of provision included the growth in the loan portfolios, changes in general economic conditions, levels of charge-offs and the amount of nonaccrual loans.

Noninterest Income

Noninterest income increased to $35.7 million for 2007 from $33.7 million in 2006, primarily due to higher accounts receivable management/factoring commissions and other fees principally due to revenues attributable to the acquisition of Sterling Resource Funding Corp. Also contributing to the increase were net gains on securities sales/calls in 2007 compared with net losses for 2006. Partially offsetting these increases was a decrease in mortgage banking income primarily due to revaluation charges which reduced the carrying values of residential mortgage loans held for sale to the lower of cost or market and a charge for settlement of potential repurchase obligations as part of our loss mitigation efforts.

Noninterest Expenses

Noninterest expenses increased to $79.8 million for 2007 from $77.4 million in 2006. The increase was primarily due to higher salaries, employee benefits, equipment and occupancy costs related to investments in the Sterling franchise, including the new branches and the acquisition of Sterling Resource Funding Corp. Also contributing to higher employee benefits expense were increases in pension costs.

Provision for Income Taxes

The provision for income taxes for 2007 increased by $3.2 million from 2006. The provision for 2006 was reduced as the result of reversals aggregating $4.4 million (during the first and third quarters of 2006) of reserves for state and local taxes, net of federal tax effect, as a result of the resolution of certain state and local tax issues and the closure of certain tax years for local tax purposes. The year-over-year change in the provision was also impacted by the lower level of pre-tax income in 2007.

Discontinued Operations

In September 2006, the Company sold the business conducted by Sterling Financial. In accordance with U.S. generally accepted accounting principles, income after taxes from discontinued operations and the loss on disposal of discontinued operations, net of tax, are reported in the Consolidated Statements of Income after net income from continuing operations for all periods presented.

The loss from discontinued operations was $0.8 million for 2007, representing $0.04 per share, compared to a loss of $0.6 million, or $.03 per share, for 2006.

Income taxes were calculated using a "with and without" methodology that resulted in an overall tax rate of 39.16% in 2007 and 38.54% in 2006.

COMPARISON OF THE YEARS 2006 AND 2005

The Company reported income from continuing operations, after income taxes, for the year ended December 31, 2006 of $21.0 million, representing $1.09 per share, calculated on a diluted basis, compared to $23.5 million, or $1.19 per share, calculated on a diluted basis, for the year 2005. This decrease reflected higher interest and noninterest expenses and lower noninterest income, which were partially offset by an increase in interest income coupled with decreases in the provision for loan losses and the provision for income taxes.

Net Interest Income

Net interest income, on a tax-equivalent basis, was $75.3 million for 2006 compared to $76.1 million for 2005. Net interest income was positively impacted by higher average loan balances at higher average yields and negatively impacted by lower average investment securities outstandings and higher rates paid on interest-bearing deposits and borrowed funds coupled with higher balances for interest-bearing deposits and borrowed funds. The net interest margin, on a tax-equivalent basis, was 4.64% for 2006 compared to 4.76% for 2005. The net interest margin was impacted by the flattening of the yield curve, the higher interest rate environment in 2006, the lower level of noninterest-bearing demand deposits and the effect of higher average loan balances. The flattening yield curve and more competitive pricing practices in the Company's markets caused the costs of deposits and borrowings to increase faster than the yield on earning assets.

Total interest income, on a tax-equivalent basis, aggregated $117.3 million for 2006, up from $102.6 million for 2005. The tax-equivalent yield on interest-earning assets was 7.23% for 2006 compared to 6.41% for 2005.

Interest earned on the loan portfolio amounted to $86.9 million for 2006, up $17.1 million from 2005. Average loan balances amounted to $1,043.7 million, an increase of $99.7 million from an average of $944.0 million in 2005. The increase in average loans (across virtually all segments of the Company's loan portfolio), primarily due to the acquisition of Sterling Resource Funding Corp. coupled with the Company's other business development activities and the ongoing consolidation of banks in the Company's marketing area, accounted for $7.9 million of the $17.1 million increase in interest earned on loans. The increase in the yield on the loan portfolio to 8.97% for 2006 from 7.99% for 2005 was primarily attributable to the mix (including the acquisition of Sterling Resource Funding Corp.) of average outstanding balances among the components of the loan portfolio and the higher interest rate environment in 2006.

Interest earned on the securities portfolio, on a tax-equivalent basis, decreased to $30.1 million for 2006 from $32.4 million in the prior year. Average outstandings decreased to $647.6 million (38.1% of average earning assets) for 2006 from $713.6 million (42.7% of average earning assets) in the prior year. The average life of the securities portfolio was approximately 4.7 years at December 31, 2006 compared to 4.4 years at December 31, 2005.

Total interest expense increased to $42.0 million for 2006 from $26.5 million for 2005, primarily due to higher rates paid for interest-bearing deposits and for borrowed funds and higher average balances for interest-bearing deposits and borrowed funds.

Interest expense on deposits increased to $29.0 million for 2006 from $18.1 million for 2005 primarily due to an increase in the cost of those funds. The average rate paid on interest-bearing deposits was 3.05% in 2006, which was 111 basis points higher than the prior year. The increase in average cost of deposits reflects the higher interest rate environment during 2006. Average interest-bearing deposit balances increased to $951.3 million for 2006 from $936.7 million for 2005.

Interest expense on borrowings increased to $15.5 million for 2006 from $11.0 million for 2005 primarily due to the higher interest rate environment during 2006. The average rate paid on borrowed funds was 4.94% which was 135 basis points higher than the prior year. The increase in average cost of borrowings reflects the higher interest rate environment during 2006. Average borrowed funds balances increased to $315.1 million for 2006 from $305.4 million in 2005.

Provision for Loan Losses

Based on management's continuing evaluation of the loan portfolio (discussed under "Asset Quality" below), the provision for loan losses for 2006 decreased to $4.5 million from $5.2 million for the prior year. Factors affecting the level of provision included the growth in the loan portfolios, changes in general economic conditions and the amount of nonaccrual loans.

Noninterest Income

Noninterest income decreased to $33.7 million for 2006 from $34.0 million in 2005, primarily due to lower revenues from mortgage banking activities and bank owned life insurance coupled with higher losses from sales of available for sale securities. The decrease in mortgage banking income was principally due to lower volume of loans sold and the continued yield compression in the secondary market for loans that impacted the entire industry. Partially offsetting these decreases were increased revenues from customer related service charges and fees primarily due to revenues attributable to the acquisition of Sterling Resource Funding Corp.

Noninterest Expenses

Noninterest expenses increased to $77.4 million for 2006 from $67.7 million in 2005. The increase was primarily due to higher salaries, employee benefits, equipment and occupancy costs related to investments in the Sterling franchise, including the new branches and the acquisition of Sterling Resource Funding Corp. Also contributing to higher employee benefits expense were increases in pension costs. During the third quarter of 2005, noninterest expenses were reduced by $1.0 million due to the reversal of litigation costs originally charged to noninterest expenses in 2001.

Provision for Income Taxes

The provision for income taxes for 2006 decreased by $7.7 million from 2005. The decrease was primarily due to: (1) a $3.7 million reversal (during the first quarter of 2006) of reserves for state and local taxes, net of federal tax effect, as a result of the resolution of certain state tax issues, (2) a $0.6 million reversal (during the third quarter of 2006) of reserves for state and local taxes, net of federal tax effect, as a result of the closure of certain tax years for local tax purposes and (3) the lower level of pre-tax income.

Discontinued Operations

In September 2006, the Company sold the business conducted by Sterling Financial. In accordance with U.S. generally accepted accounting principles, income after taxes from discontinued operations and the loss on disposal of discontinued operations, net of tax, are reported in the Consolidated Statements of Income after net income from continuing operations for all periods presented.

The loss from discontinued operations was $0.6 million for 2006, representing $0.03 per share, compared to income of $0.6 million, or $.03 per share, for 2005. The decrease was due to lower net interest income and a higher provision for loan losses for 2006 compared to 2005.

The net after-tax loss on the disposal of discontinued operations was $9.6 million, or $0.50 per share, for 2006.

Income taxes were calculated using a “with and without” methodology that resulted in an overall tax rate of 38.54% in 2006 and 45.80% in 2005.

BALANCE SHEET ANALYSIS

Securities

The Company’s securities portfolios are composed principally of obligations of U.S. government corporations and government sponsored enterprises along with other debt and equity securities. At December 31, 2007, the Company’s portfolio of securities totaled $625.2 million, of which obligations of U.S. government corporations and government sponsored enterprises amounted to $469.2 million which is approximately 93.1% of the total. The Company has the intent and ability to hold to maturity securities classified as “held to maturity.” These securities are carried at cost, adjusted for amortization of premiums and accretion of discounts. The gross unrealized gains and losses on “held to maturity” securities were $2.2 million and $4.3 million, respectively. Securities classified as “available for sale” may be sold in the future, prior to maturity. These securities are carried at 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. “Available for sale” securities included gross unrealized gains of $1.5 million and gross unrealized losses of $4.0 million. 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. Management has no current intention to sell any available for sale securities at a loss.

Information regarding book values and range of maturities by type of security and weighted average yields for totals of each category is presented in Note 5 beginning on page 53.

The following table sets forth the composition of the Company’s investment securities by type, with related carrying values at the end of each of the three most recent fiscal years:

December 31,	**2007**		2006		2005	
	Balances	**% of Total**	Balances	% of Total	Balances	% of Total
			(dollars in thousands)			
Obligations of U.S. government corporations and government sponsored enterprises						
Mortgage-backed securities						
CMOs (Federal National Mortgage Association)	**$ 20,789**	**3.33%**	$ 21,159	3.72%	$ 22,871	3.20%
CMOs (Federal Home Loan Mortgage Corporation)	**42,634**	**6.82**	44,444	7.81	48,687	6.80
CMOs (Government National Mortgage Association)	**9,094**	**1.45**	—	—	—	—
Federal National Mortgage Association	**225,736**	**36.10**	251,615	44.19	299,372	41.85
Federal Home Loan Mortgage Corporation	**158,705**	**25.38**	184,667	32.44	215,528	30.13
Government National Mortgage Association	**12,247**	**1.96**	14,922	2.62	19,645	2.74
Total mortgage-backed securities	**469,205**	**75.04**	516,807	90.78	606,103	84.72
Federal Home Loan Bank agency notes	**85,502**	**13.68**	9,992	1.76	39,689	5.55
Federal Farm Credit Bank agency notes	**27,218**	**4.35**	15,000	2.63	29,795	4.17
Total obligations of U.S. government corporations and government sponsored	**581,925**	**93.07**	541,799	95.17	675,587	94.44

enterprises						
Obligations of state and political subdivisions	**19,142**	**3.06**	21,601	3.79	31,307	4.38
Trust preferred securities	**4,303**	**0.69**	1,248	0.22	—	—
Corporate securities	**12,810**	**2.05**	—	—	—	—
Federal Reserve Bank stock	**1,131**	**0.18**	1,131	0.19	1,131	0.16
Federal Home Loan Bank stock	**5,360**	**0.86**	2,719	0.48	5,950	0.83
Other securities	**320**	**0.05**	326	0.06	324	0.05
Debt securities issued by foreign governments	**250**	**0.04**	500	0.09	1,000	0.14
Total	**$ 625,241**	**100.00%**	$ 569,324	100.00%	$ 715,299	100.00%

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

	Weighted Average Life		Weighted Average Yield	
December 31, 2007	AFS	HTM	AFS	HTM
Mortgage-backed securities	**4.7 years**	**4.6 years**	**4.69%**	**4.64%**
Agency notes (with original call dates ranging between 3 and 36 months)	**13.5 years**	**9.7 years**	**6.01%**	**5.00%**
Agency notes (noncallable)	**—**	**0.6 years**	**—**	**4.50%**
Obligations of state and political subdivisions	**5.7 years**	**—**	**6.24%** [1]	**—**

[1] tax equivalent

Loan Portfolio

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

The Company's commercial and industrial loan and factored receivables portfolios represents approximately 52% of all loans. Loans in this category are typically made to individuals, small and medium-sized businesses and range between $250,000 and $15 million. The Company's leasing portfolio, which consists of finance leases for various types of business equipment, represents approximately 21% of all loans. The leasing and commercial and industrial loan portfolios are included in corporate lending for segment reporting purposes as presented in Note 22 beginning on page 75. The Company's real estate loan portfolios, which represent approximately 24% of all loans, are secured by mortgages on real property located principally in the states of New York, New Jersey, Virginia and North Carolina. Sources of repayment are from the borrower's operating profits, cash flows and liquidation of pledged collateral. Based on underwriting standards, loans and leases may be secured whole or in part by collateral such as liquid assets, accounts receivable, equipment, inventory, and real property. The collateral securing any loan or lease may depend on the type of loan and may vary in value based on market conditions.

The following table, restated to reflect the disposition of Sterling Financial (see Note 2 beginning on page 51), sets forth the composition of the Company's loans held for sale and loans held in portfolio, net of unearned discounts, at the end of each of the five most recent fiscal years:

December 31,	**2007**		2006		2005		2004		2003	
	Balances	**% of Total**	Balances	% of Total	Balances	% of Total	Balances	% of Total	Balances	% of Total
					(dollars in thousands)					
Domestic										
Commercial and industrial	**$ 539,969**	**44.59%**	$ 521,992	45.55%	$ 414,952	39.40%	$ 386,557	40.96%	$ 334,547	41.12%
Lease financing	**249,702**	**20.62**	207,771	18.13	190,391	18.08	162,961	17.27	148,737	18.29
Factored receivables	**92,631**	**7.65**	100,156	8.74	100,663	9.56	93,186	9.87	101,653	12.50
Real estate—residential mortgage	**153,221**	**12.66**	153,376	13.39	188,723	17.92	149,387	15.83	107,766	13.25
Real estate—commercial mortgage	**99,093**	**8.18**	93,215	8.13	110,871	10.53	113,933	12.07	94,145	11.57
Real estate—construction and land development	**37,161**	**3.07**	30,031	2.62	2,309	0.22	2,320	0.24	2,368	0.29
Installment—individuals	**12,103**	**1.00**	12,381	1.08	13,125	1.25	15,477	1.64	14,259	1.75
Loans to depository institutions	**27,000**	**2.23**	27,000	2.36	32,000	3.04	20,000	2.12	10,000	1.23

Total	**$ 1,210,880**	**100.00%**	$ 1,145,922	100.00%	$ 1,053,034	100.00%	$ 943,821	100.00%	$ 813,475	100.00%

The following table sets forth the maturities of the Company's commercial and industrial, factored receivables and construction and land development loans, as of December 31, 2007:

	Due One Year or Less	Due One to Five Years	Due After Five Years	Total Gross Loans
		(in thousands)		
Commercial and industrial	$ 468,285	$ 59,638	$ 12,046	$ 539,969
Factored receivables	93,017	—	—	93,017
Real estate—construction and land development	—	37,161	—	37,161

All commercial and industrial loans due after one year have predetermined interest rates.

All real estate—construction and land development loans due after one year have floating or adjustable interest rates.

Asset Quality

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

The following table, restated to reflect the disposition of Sterling Financial (see Note 2 beginning on page 51), sets forth the amount of domestic nonaccrual and past due loans of the Company at the end of each of the five most recent fiscal years; there were no foreign loans accounted for on a nonaccrual basis and there were no troubled debt restructurings for any types of loans. Loans contractually past due 90 days or more as to principal or interest and still accruing are loans that are both well-secured or guaranteed by financially responsible third parties and are in the process of collection.

December 31,	**2007**	2006	2005	2004	2003
	(dollars in thousands)				
Gross loans	**$ 1,249,128**	$ 1,177,705	$ 1,081,701	$ 967,184	$ 833,675
Nonaccrual loans					
Commercial and industrial	**$ 610**	$ 1,490	$ 611	$ 67	$ 1,695
Lease financing	**2,571**	2,933	2,109	1,304	783
Factored receivables	**—**	—	—	—	—
Real estate—residential mortgage	**2,786**	1,011	740	704	489
Installment—individuals	**416**	427	397	72	49
Total nonaccrual loans	**6,383**	5,861	3,857	2,147	3,016
Past due 90 days or more (other than the above)	**1,329**	989	821	1,672	127
Total	**$ 7,712**	$ 6,850	$ 4,678	$ 3,819	$ 3,143
Interest income that would have been earned on nonaccrual loans outstanding	**$ 655**	$ 545	$ 294	$ 185	$ 146
Applicable interest income actually realized on nonaccrual loans outstanding	**$ 222**	$ 335	$ 95	$ 92	$ 93
Nonaccrual and past due loans as a percentage of total gross loans	**0.62%**	0.58%	0.43%	0.39%	0.38%

Management views the allowance for loan losses as a critical accounting policy due to its subjectivity. The allowance for loan losses is maintained through the provision for loan losses, which is a charge to operating earnings. The adequacy of the provision and the resulting allowance for loan losses is determined by a management evaluation process of the loan portfolio, including identification and review of individual problem situations that may affect the borrower's ability to repay, review of overall portfolio quality through an analysis of current charge-offs, delinquency and nonperforming loan data, estimates of the value of any underlying collateral, an assessment of current and expected future economic conditions and changes in the size and character of the loan portfolio. Other data utilized by management in determining the adequacy of the allowance for loan losses include, but are not limited to, the results of regulatory reviews, the amount of, trend of and/or borrower characteristics on loans that are identified as requiring special attention as part of the credit review process, and peer group comparisons. The impact of this other data might result in an allowance which will be greater than that indicated by the evaluation process previously described. The allowance reflects management's evaluation both of loans presenting identified loss potential and of the risk inherent in various components of the 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 December 31, 2007, the ratio of the allowance to loans held in portfolio, net of unearned discounts, was 1.27% and the allowance was $15.1 million. At such date, the Company's nonaccrual loans amounted to $6.4 million; $0.6 million of such loans was judged to be impaired within the scope of SFAS No. 114. Based on the foregoing, as well as management's judgment as to the current risks inherent in loans held in portfolio, the Company's allowance for loan losses was deemed adequate as of December 31, 2007. Net losses within loans held in portfolio are not statistically predictable and changes in conditions in the next twelve months could result in future provisions for loan losses varying from the provision taken in 2007. Potential problem loans, which are loans that are currently performing under present loan repayment terms but where known information about possible credit problems of borrowers causes management to have serious doubts as to the ability of the borrowers to continue to comply with the present repayment terms, aggregated $-0- million at both December 31, 2007 and 2006.

The following table, restated to reflect the disposition of Sterling Financial (see Note 2 beginning on page 51), sets forth certain information with respect to the Company's loan loss experience for each of the five most recent fiscal years:

Years Ended December 31,	**2007**	2006	2005	2004	2003
			(dollars in thousands)		
Average loans held in portfolio, net of unearned discounts, during year	**$ 1,069,453**	$ 1,002,688	$ 890,085	$ 778,272	$ 673,412
Allowance for loan losses:					
Balance at beginning of year	**$ 16,288**	$ 15,369	$ 14,437	$ 12,730	$ 10,644
Charge-offs:					
Commercial and industrial	**2,620**	1,075	446	1,784	1,588
Lease financing	**3,345**	4,618	3,732	2,446	1,155
Factored receivables	**243**	223	369	552	478
Real estate—residential mortgage	**215**	24	13	8	547
Installment	**67**	—	—	9	38
Total charge-offs	**6,490**	5,940	4,560	4,799	3,806
Recoveries:					
Commercial and industrial	**219**	786	219	737	480
Lease financing	**316**	310	76	44	25
Factored receivables	**31**	32	39	63	72
Real estate—residential mortgage	**30**	—	—	—	—
Installment	**110**	38	39	43	61
Total recoveries	**706**	1,166	373	887	638
Subtract:					
Net charge-offs	**5,784**	4,774	4,187	3,912	3,168
Provision for loan losses	**5,853**	4,503	5,214	6,139	5,412
Add allowance from acquisition	**—**	1,845	—	—	—
Less loss on transfers to other real estate owned	**1,272**	655	95	520	158
Balance at end of year	**$ 15,085**	$ 16,288	$ 15,369	$ 14,437	$ 12,730

Ratio of net charge-offs to average loans held in portfolio, net of unearned discounts, during year	**0.54%**	0.48%	0.47%	0.50%	0.47%

The following table, restated to reflect the disposition of Sterling Financial (see Note 2 beginning on page 51), presents the Company's allocation of the allowance for loan losses. This allocation is based on estimates by management and may vary from year to year based on management's evaluation of the risk characteristics of the loan portfolio. The amount allocated to a particular loan category of the Company's loans held in portfolio may not necessarily be indicative of actual future charge-offs in that loan category.

December 31,	**2007**		2006		2005		2004		2003	
	Amount	**% of Loans in each category to total loans held in portfolio**	Amount	**% of Loans in each category to total loans held in portfolio**	Amount	**% of Loans in each category to total loans held in portfolio**	Amount	**% of Loans in each category to total loans held in portfolio**	Amount	**% of Loans in each category to total loans held in portfolio**
	(dollars in thousands)									
Domestic										
Commercial and industrial	**$ 5,655**	**45.49%**	$ 6,488	46.92%	$ 7,017	41.00%	$ 6,674	42.63%	$ 5,316	43.28%
Loans to depository institutions	**54**	**2.27**	135	2.43	112	3.16	120	2.20	80	1.29
Lease financing	**5,398**	**21.03**	6,356	18.67	4,636	18.81	4,073	17.97	2,686	19.24
Factored receivables	**1,083**	**7.80**	1,127	9.00	1,260	9.95	1,071	10.28	1,592	13.15
Real estate—residential mortgage	**1,988**	**10.91**	1,468	10.79	1,437	14.60	1,412	12.39	1,228	8.70
Real estate—commercial mortgage	**613**	**8.35**	501	8.38	509	10.95	772	12.56	1,082	12.18
Real estate—construction and land development	**183**	**3.13**	150	2.70	10	0.23	15	0.26	24	0.31
Installment—individuals	**15**	**1.02**	—	1.11	110	1.30	100	1.71	14	1.85
Unallocated	**96**	**—**	63	—	278	—	200	—	708	—
Total	**$ 15,085**	**100.00%**	$ 16,288	100.00%	$ 15,369	100.00%	$ 14,437	100.00%	$ 12,730	100.00%

During 2007 the allowance for loan losses decreased primarily because decreases in the allowance allocated to commercial and industrial loans and lease financing more than offset an increase in the allowance allocated to real estate—residential mortgage loans. During 2007 the allowance allocated to commercial and industrial loans decreased primarily as a result of another year of low loss experience in Sterling Resource Funding Corp. compared to its loss experience before the Company acquired it as of April 1, 2006. The allowance allocated to lease financing decreased primarily as a result of improved loss experience in that category in 2007 compared to 2006. The allowance allocated to real estate—residential mortgage loans increased primarily due to increased risks in the real estate market in 2007 compared to 2006 and an increase in the specific valuation allowance for impaired loans.

Deposits

A significant source of funds are customer 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 at the end of each of the three most recent fiscal years:

December 31,	**2007**		2006		2005	
	Balances	**% of Total**	Balances	% of Total	Balances	% of Total
			(dollars in thousands)			
Domestic						
Demand	**$ 535,351**	**35.06%**	$ 546,443	35.90%	$ 510,884	35.27%
NOW	**241,333**	**15.80**	233,990	15.37	208,217	14.38
Savings	**17,690**	**1.16**	19,007	1.25	25,296	1.75
Money Market	**208,423**	**13.65**	194,604	12.79	202,660	13.99
Time deposits by remaining maturity						
Within 3 months	**216,024**	**14.15**	203,038	13.34	252,383	17.43
After 3 months but within 1 year	**256,686**	**16.81**	243,806	16.02	173,301	11.96
After 1 year but within 2 years	**48,138**	**3.15**	78,808	5.18	67,897	4.69
After 2 years but within 3 years	**1,270**	**0.08**	1,035	0.07	4,269	0.29
After 3 years but within 4 years	**472**	**0.03**	337	0.02	144	0.01
After 4 years but within 5 years	**1,022**	**0.07**	353	0.02	233	0.02
After 5 years	**1**	**—**	35	—	20	—
Total domestic deposits	**1,526,410**	**99.96**	1,521,456	99.96	1,445,304	99.79
Foreign						
Time deposits by remaining maturity						
Within 3 months	**395**	**0.03**	395	0.03	1,645	0.11
After 3 months but within 1 year	**181**	**0.01**	179	0.01	1,377	0.10
Total foreign deposits	**576**	**0.04**	574	0.04	3,022	0.21
Total deposits	**$ 1,526,986**	**100.00%**	$ 1,522,030	100.00%	$ 1,448,326	100.00%

Fluctuations of balances in total or among categories at any date can 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 for the three most recent fiscal years is presented on page 31.

Sterling Bancorp
CONSOLIDATED AVERAGE BALANCE SHEETS AND
ANALYSIS OF NET INTEREST EARNINGS [1]

Years Ended December 31,	**2007**			2006			2005		
	Average Balance	**Interest**	**Average Rate**	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
				(dollars in thousands)					
ASSETS									
Interest-bearing deposits with other banks	**$ 3,033**	**$ 117**	**3.86%**	$ 2,624	$ 103	4.48%	$ 3,040	$ 65	1.96%
Investment securities									
Available for sale	**165,289**	**8,379**	**5.07**	146,820	6,841	4.66	192,354	8,438	4.39
Held to maturity	**401,212**	**18,705**	**4.66**	473,608	21,496	4.54	495,187	22,181	4.48
Tax-exempt[2]	**19,962**	**1,250**	**6.26**	27,174	1,760	6.47	26,088	1,816	6.96
Federal funds sold	**23,219**	**1,236**	**5.32**	4,041	195	4.84	10,986	309	2.81
Loans, net of unearned discounts[3]									
Domestic	**1,113,372**	**92,255**	**8.83**	1,043,680	86,882	8.97	944,033	69,787	7.99
TOTAL INTEREST-EARNING ASSETS	**1,726,087**	**121,942**	**7.36%**	1,697,947	117,277	7.23%	1,671,688	102,596	6.41%
Cash and due from banks	**66,384**			64,598			62,162		
Allowance for loan losses	**(16,233)**			(16,741)			(15,730)		
Goodwill	**22,885**			22,714			21,158		
Other	**93,628**			90,812			81,126		
Total assets—continuing operations	**1,892,751**			1,859,330			1,820,404		
Assets—discontinued operations	**—**			85,446			110,697		
TOTAL ASSETS	**$ 1,892,751**			$ 1,944,776			1,931,101		
LIABILITIES AND SHAREHOLDERS' EQUITY									
Interest-bearing deposits									
Domestic									
Savings	**$ 19,618**	**101**	**0.51%**	$ 23,050	101	0.44%	$ 28,150	113	0.40%
NOW	**237,731**	**5,903**	**2.48**	197,587	3,787	1.92	160,944	1,576	0.98
Money market	**241,478**	**7,079**	**2.93**	213,530	4,696	2.20	227,520	2,456	1.08
Time	**556,295**	**25,674**	**4.62**	514,452	20,399	3.97	517,038	13,957	2.70
Foreign									
Time	**574**	**6**	**1.09**	2,714	28	1.03	3,013	33	1.09
	1,055,696	**38,763**	**3.67**	951,333	29,011	3.05	936,665	18,135	1.94

Total interest-bearing deposits									
Borrowings									
Securities sold under agreements to repurchase—customers	**80,649**	**3,392**	**4.21**	86,418	3,501	4.05	85,365	1,907	2.23
Securities sold under agreements to repurchase—dealers	**6,470**	**309**	**4.78**	74,057	3,739	5.05	52,199	1,794	3.44
Federal funds purchased	**9,281**	**430**	**4.63**	15,133	769	5.08	17,992	647	3.60
Commercial paper	**26,731**	**1,350**	**5.05**	44,539	2,020	4.53	37,302	973	2.61
Short-term borrowings—FHLB	**7,082**	**336**	**4.74**	34,444	1,796	5.21	5,277	203	3.84
Short-term borrowings—other	**1,360**	**66**	**4.87**	613	30	4.96	744	25	3.35
Long-term borrowings—FHLB	**18,356**	**820**	**4.47**	34,164	1,569	4.59	80,740	3,331	4.13
Long-term borrowings—subordinated debentures	**25,774**	**2,094**	**8.38**	25,774	2,094	8.38	25,774	2,094	8.38
Total borrowings	**175,703**	**8,797**	**5.03**	315,142	15,518	4.94	305,393	10,974	3.59
Interest-bearing liabilities allocated to discontinued operations	**—**	**—**		(78,054)	(2,508)	3.17	(99,317)	(2,646)	2.63
Total Interest-Bearing Liabilities	**1,231,399**	**47,560**	**3.86%**	1,188,421	42,021	3.54%	1,142,741	26,463	2.32%
Noninterest-bearing demand deposits	**444,672**	**—**		439,064	—		452,632	—	
Total including noninterest-bearing demand deposits	**1,676,071**	**47,560**	**2.84%**	1,627,485	42,021	2.74%	1,595,373	26,463	1.83%
Other liabilities	**92,540**			95,302			85,994		
Liabilities—discontinued operations	**—**			78,811			99,898		
Total Liabilities	**1,768,611**			1,801,598			1,781,265		
Shareholders' equity	**124,140**			143,178			149,836		
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**$ 1,892,751**			$ 1,944,776			$ 1,931,101		
Net interest income/spread		**74,382**	**3.50%**		75,256	3.69%		76,133	4.09%
Net yield on interest-earning assets			**4.49%**			4.64%			4.76%
Less: Tax-equivalent adjustment		**490**			691			708	
Net interest income		**$ 73,892**			$ 74,565			$ 75,425	

[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 prior period amounts to conform to current presentation.*

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

[3] *Includes loans held for sale and loans held in portfolio. nonaccrual loans are included in amounts outstanding and income has been included to the extent earned.*

Sterling Bancorp
CONSOLIDATED RATE/VOLUME ANALYSIS [1]

Increase (Decrease) from Years Ended,	**December 31, 2006 to December 31, 2007**			December 31, 2005 to December 31, 2006		
	Volume	**Rate**	**Total[2]**	Volume	Rate	Total[2]
	(in thousands)					
INTEREST INCOME						
Interest-bearing deposits with other banks	**$ 24**	**$ (10)**	**$ 14**	$ (11)	$ 49	$ 38
Investment securities						
Available for sale	**905**	**633**	**1,538**	(2,092)	495	(1,597)
Held to maturity	**(3,348)**	**557**	**(2,791)**	(978)	293	(685)
Tax-exempt	**(456)**	**(54)**	**(510)**	3	(59)	(56)
Total	**(2,899)**	**1,136**	**(1,763)**	(3,067)	729	(2,338)
Federal funds sold	**1,020**	**21**	**1,041**	(261)	147	(114)
Loans, net of unearned discounts[3]						
Domestic	**6,724**	**(1,351)**	**5,373**	7,907	9,188	17,095
TOTAL INTEREST INCOME	**$ 4,869**	**$ (204)**	**$ 4,665**	$ 4,568	$ 10,113	$ 14,681
INTEREST EXPENSE						
Interest-bearing deposits						
Domestic						
Savings	**$ (15)**	**$ 15**	**$ —**	$ (22)	$ 10	$ (12)
NOW	**869**	**1,247**	**2,116**	424	1,787	2,211
Money market	**674**	**1,709**	**2,383**	(160)	2,400	2,240
Time	**1,751**	**3,524**	**5,275**	(71)	6,513	6,442
Foreign						
Time	**(24)**	**2**	**(22)**	(3)	(2)	(5)
Total interest-bearing deposits	**3,255**	**6,497**	**9,752**	168	10,708	10,876
Borrowings						
Securities sold under agreements to repurchase—customers	**(242)**	**133**	**(109)**	23	1,571	1,594
Securities sold under agreements to repurchase—dealers	**(3,240)**	**(190)**	**(3,430)**	919	1,026	1,945
Federal funds purchased	**(276)**	**(63)**	**(339)**	(114)	236	122
Commercial paper	**(881)**	**211**	**(670)**	219	828	1,047
Short-term borrowings—FHLB	**(1,311)**	**(149)**	**(1,460)**	1,497	96	1,593
Short-term borrowings—other	**37**	**(1)**	**36**	(5)	10	5
Long-term borrowings—FHLB	**(709)**	**(40)**	**(749)**	(2,099)	337	(1,762)

Total borrowings	**(6,622)**	**(99)**	**(6,721)**	440	4,104	4,544
Interest-bearing liabilities allocated to discontinued operations	**2,508**	**—**	**2,508**	618	(480)	138
TOTAL INTEREST EXPENSE	**$ (859)**	**$ 6,398**	**$ 5,539**	$ 1,226	$ 14,332	$ 15,558
NET INTEREST INCOME	**$ 5,728**	**$ (6,602)**	**$ (874)**	$ 3,342	$ (4,219)	$ (877)

[1] Amounts are 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 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.

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

ASSET/LIABILITY MANAGEMENT

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

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

Market Risk

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

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

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

The Company's balance sheet structure is primarily short-term in nature with a substantial portion of assets and liabilities repricing or maturing within one year. The Company's gap analysis at December 31, 2007, presented on page 37, indicates that net interest income would decrease during periods of rising interest rates and increase during periods of falling interest rates, but, as mentioned above, gap analysis may not be an accurate predictor of net interest income.

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

As of December 31, 2007 the Company was a party to an interest rate floor agreement with a notional amount of $50,000,000 and a maturity of September 14, 2008. The interest rate floor contract requires the counterparty to pay the Company at specified future dates the amount, if any, by which the specified interest (prime rate) falls below the fixed floor rate, applied to the notional amount. The Company utilizes the financial instrument to adjust its interest rate risk position without exposing itself to principal risk and funding requirements. This financial instrument is being used as part of the Company's interest rate risk management and not for trading purposes. At December 31, 2007, the counterparty has an investment grade credit rating from the major rating agencies. The counterparty is specifically approved for applicable credit exposure.

The interest rate floor contract requires the Company to pay a fee for the right to receive a fixed interest payment. The Company paid an up-front premium of $80,000. At December 31, 2007, there were no amounts receivable under this contract.

The interest rate floor agreement was not designated as a hedge for accounting purposes and therefore changes in the fair value of the instrument are required to be recognized as current income or expense in the Company's consolidated financial statements. At December 31, 2007 and 2006, the fair value of the interest rate floor was $10,609 and $2,666, respectively. For the years ended December 31, 2007 and

2006, $7,943 was credited to interest income from loans and $18,344 was charged against interest income from loans, respectively.

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

The Company's interest rate sensitivity is determined by identifying the probable impact of changes in market interest rates on the yields on the Company's assets and the rates that would be paid on its liabilities. This modeling technique involves a degree of estimation based on certain assumptions that management believes to be reasonable. Utilizing this process, management projects the impact of changes in interest rates on net interest margin. The Company has established certain policy limits for the potential volatility of its net interest margin assuming certain levels of changes in market interest rates with the objective of maintaining a stable net interest margin under various probable rate scenarios. Management generally has maintained a risk position well within the policy limits. As of December 31, 2007, the model indicated the impact of a 200 basis point parallel and pro rata rise in rates over 12 months would approximate a 3.1% ($2.6 million) increase in net interest income, while the impact of a 200 basis point decline in rates over the same period would approximate a 2.5% ($2.1 million) decline from an unchanged rate environment.

The preceding sensitivity analysis does not represent a Company forecast and should not be relied upon as being indicative of expected operating results. These hypothetical estimates are based upon numerous assumptions including: the nature and timing of interest rate levels including yield curve shape, prepayments on loans and securities, deposit decay rates, pricing decisions on loans and deposits, reinvestment/replacement of asset and liability cash flows, and others.

While assumptions are developed based upon current economic and local market conditions, the Company cannot provide any assurances as to the predictive nature of these assumptions, including how customer preferences or competitor influences might change.

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

The shape of the yield curve can cause downward pressure on net interest income. In general, if and to the extent that the yield curve is flatter (*i.e.*, the differences between interest rates for different maturities are relatively smaller) than previously anticipated, then the yield on the Company's interest-earning assets and its cash flows will tend to be lower. Management believes that a relatively flat yield curve could continue to adversely affect the Company's results in 2008.

Liquidity Risk

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

The parent company depends for its cash requirements on funds maintained or generated by its subsidiaries, principally the bank. Such sources have been adequate to meet the parent company's cash requirements throughout its history.

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

At December 31, 2007, the parent company's short-term debt, consisting principally of commercial paper used to finance ongoing current business activities, was approximately $20.9 million. The parent company had cash, interest-bearing deposits with banks and other current assets aggregating $35.8 million. The parent company also has back-up credit lines with banks of $24.0 million. Since 1979, the parent company has had no need to use available back-up lines of credit.

The following table sets forth information regarding the Company's contractual cash obligations as of December 31, 2007:

	Payments Due by Period				
Contractual Obligations	Total	Less than 1 Year	1–3 Years	4–5 Years	After 5 Years
			(in thousands)		
Long-Term Debt[1]	$ 65,774	$ —	$ 30,000	$ 10,000	$ 25,774
Operating Leases	21,969	4,018	6,541	4,218	7,192
Total Contractual Cash Obligations	$ 87,743	$ 4,018	$ 36,541	$ 14,218	$ 32,966

[1] Based on contractual maturity date.

The following table sets forth information regarding the Company's obligations under other commercial commitments as of December 31, 2007:

	Amount of Commitment Expiration Per Period				
Other Commercial Commitments	Total	Less than 1 Year	1–3 Years	4–5 Years	After 5 Years
			(in thousands)		
Residential Loans	$ 11,504	$ 11,504	$ —	$ —	$ —
Commercial Loans	39,047	24,102	14,820	125	—
Total Loan Commitments	50,551	35,606	14,820	125	—
Standby Letters of Credit	40,216	33,806	6,410	—	—
Other Commercial Commitments	14,440	14,383	—	—	57
Total Commercial Commitments	$ 105,207	$ 83,795	$ 21,230	$ 125	$ 57

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

CAPITAL

The Company and the bank are subject to risk-based capital regulations which quantitatively measure capital against risk-weighted assets, including certain off-balance sheet items. These regulations define the elements of the Tier 1 and Tier 2 components of Total Capital and establish minimum ratios of 4% for Tier 1 capital and 8% for Total Capital for capital adequacy purposes. Supplementing these regulations is a leverage requirement. This requirement establishes a minimum leverage ratio (at least 3% or 4%, depending upon an institution's regulatory status), which is calculated by dividing Tier 1 capital by adjusted quarterly average assets (after deducting goodwill). Information regarding the Company's and the bank's risk-based capital at December 31, 2007 and December 31, 2006 is presented in Note 21 beginning on page 74. In addition, the bank is subject to the provisions of the Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA") which imposes a number of mandatory supervisory measures. Among other matters, FDICIA established five capital categories ranging from "well capitalized" to "critically undercapitalized." 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" bank must maintain minimum leverage, Tier 1 and Total Capital ratios of 5%, 6% and 10%, respectively. The Federal Reserve Board applies comparable tests for holding companies such as the Company. At December 31, 2007, the Company and the bank exceeded the requirements for "well capitalized" institutions.

IMPACT OF INFLATION AND CHANGING PRICES

The Company's financial statements included herein have been prepared in accordance with U.S. generally accepted accounting principles, which require the Company to measure financial position and operating results primarily in terms of historical dollars. Changes in the relative value of money due to inflation or recession are generally not considered. The primary effect of inflation on the operations of the Company is reflected in increased operating costs. In management's opinion, changes in interest rates affect the financial condition of a financial institution to a far greater degree than changes in the inflation rate. While interest rates are greatly influenced by changes in the inflation rate, they do not necessarily change at the same rate or in the same magnitude as the inflation rate. Interest rates are highly sensitive to many factors that are beyond the control of the Company, including changes in the expected rate of inflation, the influence of general and local economic conditions and the monetary and fiscal policies of the United States government, its agencies and various other governmental regulatory authorities, among other things, as further discussed under the caption "RISKS RELATED TO THE COMPANY'S BUSINESS" beginning on page 10 and under the caption "ASSET/LIABILITY MANAGEMENT" beginning on page 33.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

See "New Accounting Standards and Interpretations" in Note 1 of the Company's consolidated financial statements for information regarding recently issued accounting pronouncements and their expected impact on the Company's consolidated financial statements.

Sterling Bancorp
CONSOLIDATED INTEREST RATE SENSITIVITY

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

	Repricing Date					
	3 Months or Less	More than 3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Nonrate Sensitive	Total
ASSETS						
Interest-bearing deposits with other banks	$ 980	$ —	$ —	$ —	$ —	$ 980
Investment securities	419	9,684	88,172	519,968	6,998	625,241
Commercial and industrial loans	440,068	28,217	59,638	12,046	—	539,969
Equipment lease financing	1,307	9,606	262,262	14,389	(37,862)	249,702
Factored receivables	93,017	—	—	—	(386)	92,631
Real estate—residential mortgage	44,080	12,536	70,677	25,928	—	153,221
Real estate—commercial mortgage	15,433	8,976	42,994	31,690	—	99,093
Real estate—construction loans	—	—	37,161	—	—	37,161
Installment—individuals	12,103	—	—	—	—	12,103
Loans to depository institutions	27,000	—	—	—	—	27,000
Noninterest-earning assets and allowance for loan losses	—	—	—	—	175,548	175,548
Total Assets	634,407	69,019	560,904	604,021	144,298	2,012,649
LIABILITIES AND SHAREHOLDERS' EQUITY						
Interest-bearing deposits						
Savings	—	—	17,690	—	—	17,690
NOW	—	—	241,333	—	—	241,333
Money market	168,087	—	40,336	—	—	208,423
Time—domestic	216,024	256,686	50,902	1	—	523,613
—foreign	395	181	—	—	—	576
Securities sold under agreements to repurchase—customers	58,054	2,000	—	—	—	60,054
Securities sold under agreements to repurchase—dealers	10,200	—	—	—	—	10,200
Federal funds purchased	65,000	—	—	—	—	65,000
Commercial paper	20,879	—	—	—	—	20,879
Short-term borrowings—FHLB	45,000	—	—	—	—	45,000
Short-term borrowings—other	4,285	—	—	—	—	4,285
Long-term borrowings—FHLB	—	—	40,000	—	—	40,000
Long-term borrowings—subordinated debentures	—	—	—	25,774	—	25,774
Noninterest-bearing liabilities and shareholders' equity	—	—	—	—	749,822	749,822

Total Liabilities and Shareholders' Equity	587,924	258,867	390,261	25,775	749,822	2,012,649
Net Interest Rate Sensitivity Gap	$ 46,483	$ (189,848)	$ 170,643	$ 578,246	$ (605,524)	$ —
Cumulative Gap at December 31, 2007	**$ 46,483**	**$ (143,365)**	**$ 27,278**	**$ 605,524**	**$ —**	**$ —**
Cumulative Gap at December 31, 2006	$ 130,609	$ (31,621)	$ 170,278	$ 684,751	$ —	$ —
Cumulative Gap at December 31, 2005	$ 37,715	$ (51,516)	$ 82,734	$ 628,269	$ —	$ —

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Company's consolidated financial statements as of December 31, 2007 and 2006 and for each of the years in the three-year period ended December 31, 2007, and the statements of condition of Sterling National Bank as of December 31, 2007 and 2006, notes thereto and the Report of Independent Registered Public Accounting Firm thereon appear on pages 39–82.

Sterling Bancorp
CONSOLIDATED BALANCE SHEETS

December 31,	**2007**	2006
ASSETS		
Cash and due from banks	**$ 66,412,612**	$ 50,058,593
Interest-bearing deposits with other banks	**979,984**	1,261,187
Federal funds sold	**—**	20,000,000
Securities available for sale (at estimated fair value; pledged: $102,326,258 in 2007 and $90,583,854 in 2006)	**263,380,570**	148,420,887
Securities held to maturity (pledged: $191,549,044 in 2007 and $199,997,912 in 2006) (estimated fair value: $359,725,008 in 2007 and $411,650,690 in 2006)	**361,860,847**	420,903,430
Total investment securities	**625,241,417**	569,324,317
Loans held for sale	**23,755,906**	33,319,789
Loans held in portfolio, net of unearned discounts	**1,187,123,984**	1,112,601,620
Less allowance for loan losses	**15,084,775**	16,287,974
Loans, net	**1,172,039,209**	1,096,313,646
Customers’ liability under acceptances	**200,942**	98,399
Goodwill	**22,900,912**	22,862,051
Premises and equipment, net	**11,178,883**	11,323,649
Other real estate	**1,669,993**	2,242,419
Accrued interest receivable	**7,081,304**	5,844,868
Bank owned life insurance	**29,041,115**	27,949,160
Other assets	**52,146,506**	43,696,511
Total assets from continuing operations	**2,012,648,783**	1,884,294,589
Assets—discontinued operations	**—**	1,662,697
	$ 2,012,648,783	$ 1,885,957,286
LIABILITIES AND SHAREHOLDERS’ EQUITY		
Noninterest-bearing deposits	**$ 535,350,808**	$ 546,442,704
Interest-bearing deposits	**991,635,371**	975,587,719
Total deposits	**1,526,986,179**	1,522,030,423
Securities sold under agreements to repurchase—customers	**60,053,947**	52,802,796
Securities sold under agreements to repurchase—dealers	**10,200,000**	—
Federal funds purchased	**65,000,000**	—
Commercial paper	**20,878,494**	27,561,567
Short-term borrowings—FHLB	**45,000,000**	—

Short-term borrowings—other	**4,285,198**	3,411,630
Long-term borrowings—FHLB	**40,000,000**	20,000,000
Long-term borrowings—subordinated debentures	**25,774,000**	25,774,000
Total borrowings	**271,191,639**	129,549,993
Acceptances outstanding	**200,942**	98,399
Accrued expenses and other liabilities	**93,199,746**	101,679,342
Liabilities—discontinued operations	**—**	336,358
Total liabilities	**1,891,578,506**	1,753,694,515
Shareholders' Equity		
Common stock, $1 par value. Authorized 50,000,000 shares; issued 21,278,531 and 21,177,084 shares, respectively	**21,278,531**	21,177,084
Capital surplus	**168,868,895**	167,960,063
Retained earnings	**17,537,732**	16,693,987
Accumulated other comprehensive loss	**(10,811,811)**	(11,842,908)
	196,873,347	193,988,226
Common stock in treasury at cost, 3,459,302 and 2,572,368 shares, respectively	**(75,803,070)**	(61,725,455)
Total shareholders' equity	**121,070,277**	132,262,771
	$ 2,012,648,783	$ 1,885,957,286

See Notes to Consolidated Financial Statements.

Sterling Bancorp
CONSOLIDATED STATEMENTS OF INCOME

Years Ended December 31,	**2007**	2006	2005
INTEREST INCOME			
Loans	**$ 92,255,225**	$ 86,881,731	$ 69,787,586
Investment securities			
Available for sale	**9,138,487**	7,909,605	9,546,211
Held to maturity	**18,704,721**	21,496,064	22,180,396
Federal funds sold	**1,236,394**	195,656	308,766
Deposits with other banks	**117,134**	103,064	65,109
Total interest income	**121,451,961**	116,586,120	101,888,068
INTEREST EXPENSE			
Deposits	**38,762,936**	29,011,428	18,134,850
Securities sold under agreements to repurchase—customers	**3,392,542**	3,501,526	1,907,335
Securities sold under agreements to repurchase—dealers	**309,044**	3,739,286	1,793,838
Federal funds purchased	**430,087**	768,751	647,027
Commercial paper	**1,349,516**	2,019,638	973,200
Short-term borrowings—FHLB	**335,591**	1,796,247	202,837
Short-term borrowings—other	**66,200**	30,391	24,887
Long-term borrowings—FHLB	**820,303**	1,568,529	3,331,619
Long-term borrowings—subordinated debentures	**2,093,750**	2,093,750	2,093,750
Total interest expense	**47,559,969**	44,529,546	29,109,343
Interest expense allocated to discontinued operations	**—**	(2,508,092)	(2,646,062)
Net interest income	**73,891,992**	74,564,666	75,424,787
Provision for loan losses	**5,853,330**	4,502,596	5,214,000
Net interest income after provision for loan losses	**68,038,662**	70,062,070	70,210,787
NONINTEREST INCOME			
Accounts receivable management/factoring commissions and other fees	**15,536,359**	13,282,411	6,003,920
Service charges on deposit accounts	**5,587,486**	5,404,053	5,385,532
Other customer related service charges and fees	**3,043,941**	3,661,332	3,259,812
Mortgage banking income	**8,893,226**	9,695,762	16,433,355
Trust fees	**550,581**	591,422	642,906
Bank owned life insurance income	**1,091,955**	984,585	1,401,588
Securities gains/(losses)	**188,366**	(443,117)	337,457
Other income	**831,943**	481,881	551,828
Total noninterest income	**35,723,857**	33,658,329	34,016,398
NONINTEREST EXPENSES			

Salaries	**36,796,778**	35,700,312	30,775,794
Employee benefits	**9,506,172**	9,424,120	8,471,744
Total personnel expense	**46,302,950**	45,124,432	39,247,538
Occupancy and equipment expenses, net	**10,353,989**	9,898,630	8,633,292
Advertising and marketing	**3,896,921**	3,855,415	3,769,435
Professional fees	**6,665,616**	6,453,717	5,643,944
Communications	**1,940,972**	1,823,257	1,472,756
Other expenses	**10,648,060**	10,199,415	8,887,564
Total noninterest expenses	**79,808,508**	77,354,866	67,654,529
Income from continuing operations before income taxes	**23,954,011**	26,365,533	36,572,656
Provision for income taxes	**8,560,105**	5,366,808	13,109,947
Income from continuing operations	**15,393,906**	20,998,725	23,462,709
(Loss)/income from discontinued operations, net of tax	**(795,034)**	(603,753)	564,116
Loss on sale of discontinued operations, net of tax	**—**	(9,634,911)	—
Net income	**$ 14,598,872**	$ 10,760,061	$ 24,026,825
Average number of common shares outstanding			
Basic	**18,209,704**	18,734,610	19,164,498
Diluted	**18,531,546**	19,265,093	19,763,352
Income from continuing operations, per average common share			
Basic	**$ 0.85**	$ 1.12	$ 1.22
Diluted	**0.83**	1.09	1.19
Net income, per average common share			
Basic	**0.80**	0.57	1.25
Diluted	**0.79**	0.56	1.22
Dividends per common share	**0.76**	0.76	0.73

See Notes to Consolidated Financial Statements.

Sterling Bancorp
CONSOLIDATED STATEMENTS OF
COMPREHENSIVE INCOME

Years Ended December 31,	**2007**	2006	2005
Net income	**$ 14,598,872**	$ 10,760,061	$ 24,026,825
Other comprehensive income (loss), net of tax:			
Unrealized gains (losses) on securities:			
Unrealized holding gains (losses) arising during the year	**835,018**	(56,219)	(2,645,319)
Reclassification adjustment for gains (losses) included in net income	**(105,726)**	243,094	(181,582)
Pension liability adjustment—net actuarial losses	**(595,708)**	(5,467,424)	(481,659)
Amortization of:			
Prior service cost	**54,171**	—	—
Net actuarial losses	**843,342**	—	—
Other comprehensive income (loss)	**1,031,097**	(5,280,549)	(3,308,560)
Comprehensive income	**$ 15,629,969**	$ 5,479,512	$ 20,718,265

See Notes to Consolidated Financial Statements.

Sterling Bancorp
CONSOLIDATED STATEMENTS OF
CHANGES IN SHAREHOLDERS' EQUITY

Years Ended December 31,	**2007**	2006	2005
COMMON STOCK			
Balance at beginning of year	**$ 21,177,084**	$ 21,066,916	$ 20,785,515
Common shares issued under stock incentive plan	**101,447**	110,168	281,401
Balance at end of year	**$ 21,278,531**	$ 21,177,084	$ 21,066,916
CAPITAL SURPLUS			
Balance at beginning of year	**$ 167,960,063**	$ 166,313,566	$ 144,405,751
Common shares issued under stock incentive plan and related tax benefits	**794,811**	1,623,330	4,016,084
Stock option compensation expense	**114,021**	23,167	—
Common shares issued in connection with stock dividend	**—**	—	17,891,731
Balance at end of year	**$ 168,868,895**	$ 167,960,063	$ 166,313,566
RETAINED EARNINGS			
Balance at beginning of year as originally reported	**$ 16,693,987**	$ 20,739,352	$ 28,664,568
SAB 108 cumulative effect adjustment, net of tax	**—**	(589,329)	—
Balance at beginning of year as adjusted	**16,693,987**	20,150,023	28,664,568
Net income	**14,598,872**	10,760,061	24,026,825
Cash dividends paid—common shares	**(13,755,127)**	(14,216,097)	(14,035,197)
Common shares issued in connection with stock dividend	**—**	—	(17,891,731)
Stock dividend—cash in lieu	**—**	—	(25,113)
Balance at end of year	**$ 17,537,732**	$ 16,693,987	$ 20,739,352
ACCUMULATED OTHER COMPREHENSIVE LOSS			
Balance at beginning of year	**$ (11,842,908)**	$ (5,229,620)	$ (1,921,060)
Unrealized holding gains/(losses) arising during the period:			
Before tax	**1,522,811**	(102,477)	(5,038,117)
Tax effect	**(687,793)**	46,258	2,392,798
Net of tax	**835,018**	(56,219)	(2,645,319)
Reclass adjustment for (gains)/losses included in net income:			
Before tax	**(192,811)**	443,117	(337,457)
Tax effect	**87,085**	(200,023)	155,875
Net of tax	**(105,726)**	243,094	(181,582)

Pension liability adjustment—net actuarial losses			
Before tax	**(1,097,832)**	(9,966,140)	(827,867)
Tax effect	**502,124**	4,498,716	346,208
Net of tax	**(595,708)**	(5,467,424)	(481,659)
Adjustment to initially apply SFAS No. 158:			
Before tax	**—**	(2,429,345)	—
Tax effect	**—**	1,096,606	—
Net of tax	**—**	(1,332,739)	—
Amortization of prior service cost and net actuarial losses:			
Before tax	**1,636,215**	—	—
Tax effect	**(738,702)**	—	—
Net of tax	**897,513**	—	—
Balance at end of year	**$ (10,811,811)**	$ (11,842,908)	$ (5,229,620)
TREASURY STOCK			
Balance at beginning of year	**$ (61,725,455)**	$ (55,280,647)	$ (42,939,969)
Purchase of common shares	**(13,621,660)**	(5,831,017)	(10,507,293)
Surrender of shares issued under incentive compensation plan	**(455,955)**	(613,791)	(1,833,385)
Balance at end of year	**$ (75,803,070)**	$ (61,725,455)	$ (55,280,647)
UNEARNED COMPENSATION			
Balance at beginning of year	**$ —**	$ (22,007)	$ (291,212)
Amortization of unearned compensation	**—**	22,007	269,205
Balance at end of year	**$ —**	$ —	$ (22,007)
TOTAL SHAREHOLDERS' EQUITY			
Balance at beginning of year as adjusted	**$ 132,262,771**	$ 146,998,231	$ 148,703,593
Net changes during the year	**(11,192,494)**	(14,735,460)	(1,116,033)
Balance at end of year	**$ 121,070,277**	$ 132,262,771	$ 147,587,560

See Notes to Consolidated Financial Statements.

Sterling Bancorp
CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31,	**2007**	2006	2005
OPERATING ACTIVITIES			
Net income	$ **14,598,872**	$ 10,760,061	$ 24,026,825
Loss/(income) from discontinued operations included below in operating cash flows from discontinued operations	**795,034**	10,238,664	(564,116)
Income from continuing operations	**15,393,906**	20,998,725	23,462,709
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:			
Provision for loan losses	**5,853,330**	4,502,596	5,214,000
Depreciation and amortization of premises and equipment	**2,549,617**	2,338,288	1,993,079
Securities (gains) losses	**(188,366)**	443,117	(337,457)
Income from bank owned life insurance	**(1,091,955)**	(984,585)	(1,401,588)
Deferred income tax (benefit) expense	**(996,882)**	4,941,556	(2,563,819)
Proceeds from sale of loans	**534,677,127**	598,245,030	699,784,956
Gains on sales of loans, net	**(8,893,226)**	(9,695,762)	(16,433,355)
Originations of loans held for sale	**(529,004,960)**	(580,891,519)	(687,270,466)
Amortization of unearned compensation	**—**	22,007	269,205
Amortization of premiums on investment securities	**414,895**	557,943	969,000
Accretion of discounts on investment securities	**(444,198)**	(450,087)	(613,712)
(Increase) Decrease in accrued interest receivable	**(1,236,436)**	271,239	(511,326)
(Decrease) Increase in accrued expenses and other liabilities	**(8,479,596)**	(1,764,144)	1,120,618
(Increase) Decrease in other assets	**(8,003,774)**	3,698,564	(10,755,005)
Other, net	**84,384**	(6,828,742)	(3,218,157)
Net cash provided by operating activities	**633,866**	35,404,226	9,708,682
INVESTING ACTIVITIES			
Purchase of premises and equipment	**(2,404,851)**	(2,244,447)	(2,203,597)
Net decrease (increase) in interest-bearing deposits with other banks	**281,203**	(48,960)	116,876
Decrease (Increase) in Federal funds sold	**20,000,000**	(20,000,000)	—
Net increase in loans held in portfolio	**(70,066,191)**	(42,838,360)	(109,577,373)
Decrease (Increase) in other real estate	**1,844,666**	(728,148)	1,880
Proceeds from calls/sales of securities—available for sale	**30,423,093**	25,371,314	3,213,055
Proceeds from calls/sales of securities—held to maturity	**34,110,000**	—	5,452,162
Proceeds from prepayments, redemptions or maturities of securities—held to maturity	**78,985,550**	93,192,390	106,710,878
Purchases of securities—held to maturity	**(54,116,345)**	(115,870)	(179,939,152)
Proceeds from prepayments, redemptions or maturities—available for sale	**156,208,460**	43,352,904	68,110,833
Purchases of securities—available for sale	**(300,095,469)**	(15,992,356)	(43,026,829)
Cash paid in acquisition	**—**	(44,901,402)	—
Net cash (used in) provided by investing activities	**(104,829,884)**	35,047,065	(151,141,267)

FINANCING ACTIVITIES			
Net (decrease) increase in noninterest-bearing deposits	**(11,091,896)**	25,491,272	(423,052)
Net increase in interest-bearing deposits	**16,047,652**	38,145,544	104,898,077
Increase (Decrease) in Federal funds purchased	**65,000,000**	(55,000,000)	22,500,000
Net increase (decrease) in securities sold under agreements to repurchase	**17,451,151**	(96,993,277)	59,979,903
Net increase (decrease) in commercial paper and other short-term borrowings	**39,190,495**	(46,069,065)	48,533,849
Increase (Decrease) in long-term borrowings	**20,000,000**	(40,000,000)	(50,000,000)
Purchase of treasury shares	**(13,621,660)**	(5,831,017)	(10,507,293)
Proceeds from exercise of stock options	**798,117**	1,338,013	2,701,565
Cash dividends paid on common shares	**(13,755,127)**	(14,216,097)	(14,035,197)
Cash paid in lieu of fractional shares in connection with stock dividend/split	**—**	—	(25,113)
Net cash provided by (used in) financing activities	**120,018,732**	(193,134,627)	163,622,739
CASH FLOW FROM DISCONTINUED OPERATIONS			
Operating cash flows	**531,305**	(10,013,867)	4,558,869
Investing cash flows	**—**	114,193,759	(6,172,078)
Financing cash flows	**—**	—	—
Total	**531,305**	104,179,892	(1,613,209)
Net increase (decrease) in cash and due from banks	**16,354,019**	(18,503,444)	20,576,945
Cash and due from banks—beginning of year	**50,058,593**	68,562,037	47,985,092
Cash and due from banks—end of year	**$ 66,412,612**	$ 50,058,593	$ 68,562,037
Supplemental disclosure of cash flow information:			
Interest paid	**$ 47,298,932**	$ 41,822,000	$ 27,904,950
Income taxes paid	**2,286,087**	8,267,452	15,600,100
Loans held for sale transferred to portfolio	**12,784,942**	—	—
Loans in portfolio transferred to other real estate	**1,272,240**	654,730	94,801

See Notes to Consolidated Financial Statements.

Sterling National Bank
CONSOLIDATED STATEMENTS OF CONDITION

December 31,	2007	2006
ASSETS		
Cash and due from banks	**$ 66,358,882**	$ 50,007,363
Interest-bearing deposits with other banks	**979,983**	1,261,187
Federal funds sold	**—**	20,000,000
Securities available for sale (at estimated fair value; pledged: $102,326,258 in 2007 and $90,583,854 in 2006)	**263,132,510**	148,354,838
Securities held to maturity (pledged: $191,549,044 in 2007 and $199,997,912 in 2006) (estimated fair value: $359,725,008 in 2007 and $411,650,690 in 2006)	**361,860,847**	420,903,430
Total investment securities	**624,993,357**	569,258,268
Loans held for sale	**23,755,906**	33,319,789
Loans held in portfolio, net of unearned discounts	**1,182,323,734**	1,107,801,370
Less allowance for loan losses	**15,084,775**	16,287,974
Loans, net	**1,167,238,959**	1,091,513,396
Customers’ liability under acceptances	**200,942**	98,399
Goodwill	**1,742,472**	1,703,611
Premises and equipment, net	**11,154,794**	11,289,534
Other real estate	**1,669,993**	2,242,419
Accrued interest receivable	**6,864,011**	5,843,461
Bank owned life insurance	**29,041,115**	27,949,160
Other assets	**40,610,161**	36,928,928
Total assets from continuing operations	**1,974,610,575**	1,851,415,515
Assets—discontinued operations	**—**	—
	$ 1,974,610,575	$ 1,851,415,515
LIABILITIES AND SHAREHOLDER’S EQUITY		
Noninterest-bearing deposits	**$ 542,013,134**	$ 569,431,020
Interest-bearing deposits	**1,007,299,053**	1,006,178,406
Total deposits	**1,549,312,187**	1,575,609,426
Securities sold under agreements to repurchase—customers	**60,053,947**	52,802,796
Securities sold under agreements to repurchase—dealers	**10,200,000**	—
Federal funds purchased	**65,000,000**	—
Short-term borrowings—FHLB	**45,000,000**	—
Short-term borrowings—other	**4,285,198**	3,411,630
Long-term borrowings—FHLB	**40,000,000**	20,000,000

Acceptances outstanding	**200,942**	98,399
Accrued expenses and other liabilities	**74,016,121**	83,168,726
Liabilities—discontinued operations	**—**	251,460
Total liabilities	**1,848,068,395**	1,735,342,437
Shareholder's Equity		
Common stock, $50 par value		
Authorized and issued, 358,526 shares	**17,926,300**	17,926,300
Capital surplus	**19,762,560**	19,762,560
Undivided profits	**96,266,910**	86,834,185
Accumulated other comprehensive loss:		
Net unrealized loss on securities available for sale, net of tax	**(1,061,142)**	(1,795,713)
Pension liability adjustment	**(7,249,961)**	(5,321,515)
Adjustment to initially apply SFAS No. 158	**—**	(1,332,739)
Amortization of prior service cost and net actuarial losses	**897,513**	—
Total shareholder's equity	**126,542,180**	116,073,078
	$ 1,974,610,575	$ 1,851,415,515

See Notes to Consolidated Financial Statements.

Sterling Bancorp
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The following summarizes the significant accounting policies of the Company.

Basis of Presentation

The consolidated financial statements include the accounts of the parent company and its subsidiaries, principally Sterling National Bank (the "bank"), after elimination of intercompany transactions.

The Company determines whether it has a controlling financial interest in an entity by first evaluating whether the entity is a voting interest entity or a variable interest entity under U.S. generally accepted accounting principles ("U.S. GAAP"). Voting interest entities are entities in which the total equity investment at risk is sufficient to enable the entity to finance itself independently and provides the equity holders with the obligation to absorb losses, the right to receive residual returns and the right to make decisions about the entity's activities. As defined in applicable accounting standards, variable interest entities ("VIEs") are entities that lack one or more of the characteristics of a voting interest entity. A controlling financial interest in an entity is present when an enterprise has a variable interest, or a combination of variable interests, that will absorb a majority of the entity's expected losses, receive a majority of the entity's expected residual returns, or both. The enterprise with a controlling financial interest, known as the primary beneficiary, consolidates the VIE. The Company's wholly-owned subsidiary, Sterling Bancorp Trust I, is a VIE for which the Company is not the primary beneficiary. Accordingly, the accounts of this entity are not included in the Company's consolidated financial statements.

General Accounting Policies

The preparation of financial statements in accordance with U.S. GAAP requires management to make assumptions and estimates which impact the amounts reported in those statements and are, by their nature, subject to change in the future as additional information becomes available or as circumstances vary. Certain reclassifications have been made to the prior years' consolidated financial statements to conform to the current presentation.

New Accounting Standards and Interpretations Not Yet Adopted

In December 2007, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 141(R), *Business Combinations (revised 2007),* ("SFAS No. 141(R)"), which replaces SFAS No. 141, *Business Combinations*. SFAS No. 141(R) applies to all transactions and other events in which one entity obtains control over one or more other businesses and requires an acquirer, upon initially obtaining control of another entity, to recognize the assets, liabilities and any non-controlling interest in the acquiree at fair value as of the acquisition date. Contingent consideration is required to be recognized and measured at fair value on the date of acquisition rather than at a later date when the amount of that consideration may be determinable beyond a reasonable doubt. This fair value approach replaces the cost-allocation process required under SFAS No. 141 whereby the cost of an acquisition was allocated to the individual assets acquired and liabilities assumed based on their estimated fair value. SFAS No. 141(R) requires acquirers to expense acquisition-related costs as incurred rather than allocating such costs to the assets acquired and liabilities assumed, as was previously the case under SFAS No. 141. Under SFAS No. 141(R), the requirements of SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities,* must be met in order to accrue for a restructuring plan in purchase accounting. Pre-acquisition contingencies are to be recognized at fair value, unless it is a non-contractual contingency that is not likely to materialize, in which case, that contingency would be subject to the probable and estimable recognition criteria of SFAS No. 5, *Accounting for Contingencies*. SFAS No. 141(R) is effective on a prospective basis for all business combinations for which the acquisition date is on or after the beginning of the first annual period subsequent to December 15, 2008. Early adoption is not permitted.

In December 2007, the FASB issued SFAS No. 160, *Non-controlling Interests in Consolidated Financial Statements—an amendment of ARB No. 51* ("SFAS No. 160"). SFAS No. 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008, with earlier adoption prohibited. SFAS No. 160 amends Accounting Research Bulletin No. 51, to establish accounting and reporting standards for the non-controlling interest in a subsidiary, and for the deconsolidation of a subsidiary. SFAS No. 160 clarifies that a non-controlling interest in a subsidiary, which is sometimes referred to as minority interest, is an ownership interest in the consolidated entity that should be reported as a component of equity in the consolidated financial statements. Among other requirements, SFAS No. 160 requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the non-controlling interest. It also requires disclosure, on the face of the consolidated income statement, of the amounts of consolidated net income attributable to the parent and to the non-controlling interest. We are currently evaluating this new statement and anticipate that the statement will not have a significant impact on the reporting of our results of operations.

In December 2007, the Emerging Issues Task Force ("EITF") issued Issue No. 07-01, *Accounting for Collaborative Arrangements* ("EITF Issue No. 07-01"). EITF Issue No. 07-01 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years, and shall be applied retrospectively to all prior periods presented for all collaborative arrangements existing as of the effective date. EITF Issue No. 07-01 requires that transactions with third parties (i.e., revenue generated and costs incurred by the partners) should be reported in the appropriate line item in each company's financial statement pursuant to the guidance in EITF Issue No. 99-19, *Reporting Revenue Gross as a Principal Versus Net as an Agent*. This Issue also includes enhanced disclosure requirements regarding the nature and purpose of the arrangement, rights and obligations under the arrangement, accounting policy, and statement classification of collaboration transactions between the parties. We are currently evaluating this new statement and anticipate that the statement will not have a significant impact on the reporting of our results of operations.

In November 2007, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin ("SAB") No. 109, *Written Loan Commitments Recorded at Fair Value Through Earnings* ("SAB No. 109"). SAB No. 109 supersedes SAB No. 105, *Application of Accounting Principles to Loan Commitments*, and indicates that the expected net future cash flows related to the associated servicing of the loan should be included in the measurement of all written loan commitments that are accounted for at fair value through earnings. The guidance in SAB No. 109 is applied on a prospective basis to derivative loan commitments issued or modified in fiscal quarters beginning after December 15, 2007. SAB No. 109 is not expected to have a material impact on the Company's financial statements.

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

In September 2006, FASB issued SFAS No. 157, *Fair Value Measurements* ("SFAS No. 157"). SFAS No. 157 defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles, and requires expanded disclosures regarding fair value measurements. The expanded disclosures include a requirement to disclose fair value measurements according to a hierarchy, segregating measurements using (1) quoted prices in active markets for identical assets and liabilities, (2) significant other observable inputs and (3) significant unobservable inputs. SFAS No. 157 is effective for the Company on January 1, 2008 and will affect certain of the Company's fair value disclosures, but is not expected to have a material impact on the Company's financial condition or results of operations. The portion of the Company's assets and liabilities with fair values based on unobservable inputs is not expected to be significant.

In September 2006, the EITF reached a consensus on Issue No. 06-4, *Accounting for Deferred Compensation and Post-retirement Benefit Aspects of Endorsement Split Dollar Life Insurance Arrangements* ("EITF Issue No. 06-4"). EITF Issue No. 06-4 is effective for fiscal years beginning after December 31, 2007. Under the provisions of EITF Issue No. 06-4, an employer should recognize a liability for future benefits for endorsement split-dollar life insurance agreements that are within the scope of this EITF Issue. The Company expects to adopt EITF Issue No. 06-4 as of January 1, 2008 as a change of accounting principle through a cumulative adjustment to retained earnings. The amount of the adjustment is not expected to be significant.

Investment Securities

Securities are designated at the time of acquisition as available for sale or held to maturity. Securities that the Company will hold for indefinite periods of time and that might be sold in the future as part of efforts to manage interest rate risk or in response to changes in interest rates, changes in prepayment risk, changes in market conditions or changes in economic factors are classified as available for sale and carried at estimated market values. Net aggregate unrealized gains or losses are included in a valuation allowance account and are reported, net of taxes, as a component of shareholders' equity through other comprehensive income. Securities that the Company has the positive intent and ability to hold to maturity are designated as held to maturity and are carried at amortized cost, adjusted for amortization of premiums and accretion of discounts over the period to maturity. Interest income includes the amortization of purchase premiums and accretion of purchase discounts. Gains and losses realized on sales of securities are determined on the specific identification method and are reported in noninterest income as net securities gains.

Included in investment securities available for sale is the bank's investment in Federal Home Loan Bank of New York ("FHLB") stock and is carried at par value, which reasonably approximates its fair value. The bank is required to maintain a minimum level of investment in FHLB stock based on specific percentages of its outstanding mortgages, total assets or FHLB advances. Stock redemptions are at the discretion of the FHLB.

Securities pledged as collateral are reported 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 FHLB and for other purposes required or permitted by law.

A periodic review is conducted by management to determine if the decline in the fair value of any security appears to be other-than-temporary. Factors considered in determining whether the decline is other-than-temporary include, but are not limited to: the length of time and the extent to which fair value has been below cost; the financial condition and near-term prospects of the issuer; and the Company's ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery. If the decline is deemed to be other-than-temporary, the security is written down to a new cost basis and the resulting loss is reported in noninterest income.

Loans

Loans (including factored accounts receivable), other than those held for sale, are reported at their principal amount outstanding, net of unearned discounts and unamortized nonrefundable fees and direct costs associated with their origination or acquisition. Interest earned on loans without discounts is credited to income based on loan principal amounts outstanding at appropriate interest rates. Material origination and other nonrefundable fees net of direct costs and discounts on loans (excluding factored accounts receivable) are credited to income over the terms of the loans using a method that results in an approximately constant effective yield. Nonrefundable fees on the purchase of accounts receivable are credited to "Factoring income" at the time of purchase, which, based on our analysis, does not produce results that are materially different from the results under the amortization method specified in SFAS No. 91.

Mortgage loans held for sale, including deferred fees and costs, are reported at the lower of cost or fair value as determined by outstanding commitments from investors or current investor yield requirements calculated on the aggregate loan basis, and are included under the caption "Loans held for sale" in the Consolidated Balance Sheets. Net unrealized losses, if any, are recognized in a valuation allowance by a charge to income. Mortgage loans are sold, including servicing rights, without recourse. Gains or losses resulting from sales of mortgage loans, net of unamortized deferred fees and costs, are recognized when the proceeds are received from investors and are included under the caption "Mortgage banking income" in the Consolidated Statements of Income. In connection with its mortgage banking activities, the Company had commitments to fund loans held for sale and commitments to sell loans which are considered derivative instruments under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities.* The fair values of these free-standing derivative instruments were immaterial at December 31, 2007 and 2006.

Nonaccrual loans are those on which the accrual of interest has ceased. Loans, including loans that are individually identified as being impaired under SFAS No. 114, are generally placed on nonaccrual status immediately if, in the opinion of management, principal or interest is not likely to be paid in accordance with the terms of the loan agreement, or when principal or interest is past due 90 days or more and collateral, if any, is insufficient to cover principal and interest. Interest accrued but not collected at the date a loan is placed on nonaccrual status is reversed against interest income. Interest income is recognized on nonaccrual loans only to the extent received in cash. However, where there is doubt regarding the ultimate collectibility of the loan principal, cash receipts, whether designated as principal or interest, are thereafter applied to reduce the carrying value of the loan. Loans are restored to accrual status only when interest and principal payments are brought current and future payments are reasonably assured.

Allowance for Loan Losses

The allowance for loan losses, which is available for losses incurred in the loan portfolio, is increased by a provision charged to expense and decreased by charge-offs, net of recoveries.

The Company's allowance for loan losses includes (1) specific valuation allowances for impaired loans evaluated in accordance with SFAS No. 114, as amended by SFAS No. 118, and (2) formulaic allowances based on historical loss experience by loan category, as adjusted for various evaluation factors, including those described below.

Under the provisions of SFAS No. 114 and SFAS No. 118, individually identified impaired loans are measured based on the present value of payments expected to be received, using the historical effective loan rate as the discount rate. Alternatively, measurement may also be based on observable market prices; or, for loans that are solely dependent on the collateral for repayment, measurement may be based on the fair value of the collateral. Loans that are to be foreclosed are measured based on the fair value of the collateral. If the recorded investment in the impaired loan exceeds fair value, a valuation allowance is required as a component of the allowance for loan losses. Changes to the valuation allowance are recorded as a component of the provision for loan losses.

The adequacy of the allowance for loan losses is reviewed regularly by management. The allowance for loan losses is maintained through the provision for loan losses, which is a charge to expense. 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 both of 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.

Goodwill

Goodwill reflected in the consolidated balance sheets arose from the parent company's acquisition of the bank (in 1968) and the acquisition of Sterling Resource Funding Corp (in 2006), under the purchase method of accounting. Goodwill is assigned to the Corporate lending unit for segment reporting purposes. Effective January 1, 2002, the Company adopted SFAS No. 142, *Goodwill and Other Intangible Assets* ("SFAS No. 142"). Under the provisions of SFAS No. 142, goodwill is deemed to have an indefinite useful life and the Company is required to complete an annual assessment by segment for any impairment of goodwill, which would be treated as an expense in the income statement. There was no impairment expense recorded in 2007, 2006 or 2005.

Goodwill is tested for impairment using a two-step approach that involves the identification of "reporting units" and the estimation of their respective fair values. An impairment loss would be recognized as a charge to expense for any excess of the goodwill carrying amount over implied fair value.

Premises and Equipment

Premises and equipment, excluding land, are stated at cost less accumulated depreciation or amortization as applicable. Land is reported at cost. Depreciation is computed on a straight-line basis and is charged to noninterest expense over the estimated useful lives of the related assets. Useful lives are 7 years for furniture fixtures and equipment, between 3 and 7 years for ATMs, computer hardware and software, and 10 years for building improvements. Amortization of leasehold improvements is charged to noninterest expense over the terms of the respective leases or the estimated useful lives of the improvements, whichever is shorter. Maintenance, repairs and minor improvements are charged to noninterest expenses as incurred.

Foreclosed Assets

Assets acquired through or instead of loan foreclosure are held for sale and are initially recorded at fair value less estimated selling costs when acquired, establishing a new cost basis. Costs after acquisition are generally expenses. If the fair value of the asset declines, a write-down is recorded through expense. The valuation of foreclosed assets is subjective in nature and may be adjusted in the future because of changes in economic conditions.

Bank Owned Life Insurance

The bank invested in Bank Owned Life Insurance ("BOLI") policies to fund certain future employee benefit costs. The cash surrender value, net of surrender charges, of the BOLI policies is recorded in the consolidated balance sheets under the caption "Bank owned life insurance." Changes in the cash surrender value, net of surrender charges, are recorded in the Consolidated Statements of Income under the caption "Bank owned life insurance income."

Repurchase Agreements

The Company sells certain securities under agreements to repurchase and receives cash as collateral. The agreements are treated as collateralized financing transactions and the obligations to repurchase securities sold are reflected as a liability in the accompanying consolidated balance sheets. The carrying value of the securities underlying the agreements remains reflected as an asset.

Derivative Financial Instruments

The Company's hedging policies permit the use of various derivative financial instruments to manage interest rate risk or to hedge specified assets and liabilities. All derivatives are recorded at fair value on the Company's balance sheet. To qualify for hedge accounting, derivatives must be highly effective at reducing the risk associated with the exposure being hedged and must be designated as a hedge at the inception of the derivative contract. The Company considers a hedge to be highly effective if the change in fair value of the derivative hedging instrument is within 80% to 120% of the opposite change in the fair value of the derivative and the hedged item attributable to the hedged risk. If derivative instruments are designated as hedges of fair values, and such hedges are highly effective, both the change in the fair value of the hedge and the hedged item are included in current earnings. Fair value adjustments related to cash flow hedges are recorded in other comprehensive income and are reclassified to earnings when the hedged transaction is reflected in earnings. Ineffective portions of hedges are reflected in earnings as they occur. Actual cash receipts and/or payments and related accruals on derivatives related to hedges are recorded as adjustments to the interest income or interest expense associated with the hedged item. During the life of the hedge, the Company formally assesses whether derivatives designated as hedging instruments continue to be highly effective in offsetting changes in the fair value or cash flows of hedged items. If it is determined that a hedge has ceased to be highly effective, the Company will discontinue hedge accounting prospectively. At such time, previous adjustments to the carrying value of the hedged item are reversed into current earnings and the derivative instrument is reclassified to a trading position recorded at fair value. Changes in the fair value of derivative financial instruments not designated as hedges for accounting purposes are reflected in income or expense at measurement dates. At December 31, 2007 and 2006, the Company was a party to interest rate floor contracts, which are being used as part of the Company's interest rate risk program and not for hedge purposes, with a notional amount of $50,000,000 and $100,000,000, respectively, and a fair value of $10,609 and $2,668, respectively.

The Company may be required to recognize certain contracts and commitments as derivatives when the characteristics of those contracts and commitments meet the definition of a derivative.

Income Taxes

The Company utilizes the asset and liability method of accounting for income taxes. Deferred income tax expense (benefit) is determined by recognizing deferred tax assets and liabilities for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. The realization of deferred tax assets is assessed and a valuation allowance provided for that portion of the assets for which it is more likely than not that it will not be realized. Deferred tax assets and liabilities are measured using enacted tax rates and will be adjusted for the effects of future changes in tax laws or rates, if any.

For income tax purposes, the parent company files: a consolidated Federal income tax return; combined New York City and New York State income tax returns; and separate state income tax returns for its out-of-state subsidiaries. The parent company, under tax sharing agreements, either pays or collects on account of current income taxes to or from its subsidiaries.

Effective January 1, 2007, the Company adopted the provisions of Financial Accounting Standards Interpretation ("FIN"), *Accounting for Uncertainty in Income Taxes—An Interpretation of FASB Statement No. 109 ("FIN 48")*. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes*. FIN 48 also prescribes a specified recognition threshold and measurement attribute for the financial statement recognition and

measurement of a tax position taken or expected to be taken in a tax return. The new interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. See Note 18 for further analysis of the Company's adoption of this standard as of January 1, 2007.

Statements of Cash Flows

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

Stock Incentive Plan

At December 31, 2007, the Company had a stock-based employee compensation plan, which is described more fully in Note 16. Prior to January 1, 2006, the Company accounted for this plan under the recognition and measurement principles of Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* ("APB 25") and related interpretations. All options granted under the plan had an exercise price equal to or greater than the market value of the underlying common stock on the date of grant and, therefore, no option related stock-based employee compensation cost was reflected in net income for the year ended December 31, 2005. Stock-based employee compensation cost related to restricted stock is included in compensation expense as discussed more fully in Note 16.

In accordance with SFAS No. 123, *Accounting for Stock-Based Compensation* ("SFAS No. 123"), the following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123, to the stock-based employee compensation plans.

Year Ended December 31,		2005
Income from continuing operations	$	23,462,709
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects		(1,134,612)
Pro forma, income from continuing operations		22,328,097
Income from discontinued operations, net of tax		564,116
Pro forma, net income	$	22,892,213
Income from continuing operations per average common share:		
Basic—as reported	$	1.22
Basic—pro forma		1.17
Diluted—as reported		1.19
Diluted—pro forma		1.13
Net income per average common share:		
Basic—as reported		1.25
Basic—pro forma		1.19
Diluted—as reported		1.22
Diluted—pro forma		1.16

Employee stock options generally expire ten years from the date of grant and become non-forfeitable one year from date of grant, although if necessary to qualify to the maximum extent possible as incentive stock options, these options become exercisable in annual installments. Director nonqualified stock options generally expire five years from the date of grant and become non-forfeitable and become exercisable in four annual installments starting one year from date of grant. Subsequent to the adoption of SFAS No. 123R, stock-based compensation is recognized over the period from date of grant to the date on which the options become non-forfeitable.

As of January 1, 2006, the Company adopted SFAS No. 123R which eliminated the ability to account for stock-based compensation using APB 25 and requires that such transactions be recognized as compensation cost in the income statement for awards expected to be vested based on their fair values on the measurement date, which is generally the date of the grant. The Company transitioned to fair value based accounting for stock-based compensation using a modified version of prospective application (“modified prospective application”). Under modified prospective application, as it is applicable to the Company, SFAS No. 123R applies to new awards and to awards modified, repurchased, or cancelled after January 1, 2006. SFAS No. 123R requires pro forma disclosures which are presented above, of net income and earnings per share for all periods prior to the adoption of the fair value accounting method for stock-based employee compensation.

Earnings Per Average Common Share

Basic earnings per share are computed by dividing income available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted earnings per share reflect the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the Company.

NOTE 2.

ACQUISITION AND DISPOSITION

As of April 1, 2006, Sterling Resource Funding Corp., a subsidiary of the bank, completed the acquisition of the business and certain assets ($64.1 million) and liabilities ($21.0 million) of PL Services, L.P., a provider of credit and accounts receivable management services to the staffing industry, in an all cash transaction. A general allowance for loan losses in the amount of $1.8 million was carried over. Goodwill recognized in this transaction amounted to $1.7 million and was assigned to the Corporate Lending unit for segment reporting purposes. This acquisition, when considered under relevant disclosure guidance, does not require the presentation of separate pro forma financial information.

The Company’s goodwill was $22,900,912 and $22,862,051 as of December 31, 2007 and 2006, respectively. The increase of $38,861 during 2007 was the result of a purchase price adjustment in connection with the Sterling Resource Funding acquisition discussed above.

In September 2006, the Company sold for cash the business conducted by Sterling Financial Services (“Sterling Financial”), which included a loan portfolio of approximately $132 million.

The interest expense allocated to discontinued operations was based on the actual average balances, interest expenses and average rate on each category of interest-bearing liabilities, with the average rate applied to the aggregate average loan balances to determine the funding cost. Interest expense allocated to the funding supporting the Sterling Financial net loans for those periods was assigned based on the average net loan balances proportionately funded by all interest-bearing liabilities at an average rate equal to the cost of each applied to its average balance for the period.

The results of operations of Sterling Financial have been reported as a discontinued operation in the consolidated statements of income for all periods presented. For the year ended December 31, 2006, the Company recorded a pre-tax loss on the sale of $15,677,360 and a tax benefit of $6,042,449. Total revenues generated by the operations of Sterling Financial amounted to $404,438, $8,340,544 and $11,692,798 for the years ended December 31, 2007, 2006 and 2005, respectively. For the years ended December 31, 2007, 2006 and 2005, the income tax (benefit) and income tax expense associated with discontinued operations, exclusive of loss on sale, were $(511,831), $(378,639) and $476,766, respectively. Income taxes were calculated using a “with and without” methodology that resulted in an overall tax rate of 39.16% in 2007, 38.54% in 2006 and 45.80% in 2005.

The assets and liabilities of discontinued operations are presented separately in the accompanying consolidated balance sheets. The details are as follows:

	December 31, 2006
Assets	
Cash and due from banks	$ 171,925
Loans, net of allowance for loan losses	947,217
Other assets	543,555
Total assets	$ 1,662,697
Liabilities	
Accrued expenses and other liabilities	$ 336,358
Total liabilities	$ 336,358

NOTE 3.

CASH AND DUE FROM BANKS

The bank is required to maintain average reserves, net of vault cash, on deposit with the Federal Reserve Bank of New York against outstanding domestic deposits and certain other liabilities. The required reserves, which are reported in cash and due from banks, were $38,085,000 and $24,753,000 at December 31, 2007 and 2006, respectively. Average required reserves during 2007 and 2006 were $32,299,000 and $30,349,000, respectively.

NOTE 4.

MONEY MARKET INVESTMENTS

The Company's money market investments include interest-bearing deposits with other banks and Federal funds sold. The following table presents information regarding money market investments.

Years Ended December 31,		**2007**	2006	2005
Interest-bearing deposits with other banks				
At December 31	— Balance	**$ 979,984**	$ 1,261,187	$ 1,212,227
	— Average interest rate	**3.16%**	3.80%	3.11%
	— Average original maturity	**115 Days**	115 Days	66 Days
During the year	— Maximum month-end balance	**4,449,090**	5,183,338	5,209,048
	— Daily average balance	**3,033,000**	2,624,000	3,040,000
	— Average interest rate earned	**3.86%**	4.48%	1.96%
	— Range of interest rates earned	**1.50–5.36%**	1.50–5.36%	1.00–4.06%
Federal funds sold				
At December 31	— Balance	**$ —**	$ 20,000,000	$ —
	— Average interest rate	**—**	5.19%	—
	— Average original maturity	**—**	1 Day	—

During the year	— Maximum month-end balance	**120,000,000**	20,000,000	40,000,000
	— Daily average balance	**23,219,000**	4,041,000	10,986,000
	— Average interest rate earned	**5.32%**	4.84%	2.81%
	— Range of interest rates earned	**4.50–5.375%**	4.42–5.28%	2.19–3.94%

NOTE 5.

INVESTMENT SECURITIES

The amortized cost and estimated fair value of securities available for sale are as follows:

December 31, 2007	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Obligations of U.S. government corporations and government sponsored enterprises				
Mortgage-backed securities				
CMOs (Federal National Mortgage Association)	**$ 8,805,428**	**$ —**	**$ 365,936**	**$ 8,439,492**
CMOs (Federal Home Loan Mortgage Corporation)	**22,397,938**	**—**	**959,349**	**21,438,589**
CMOs (Government National Mortgage Association)	**9,141,893**	**—**	**47,250**	**9,094,643**
Federal National Mortgage Association	**53,760,132**	**241,290**	**627,824**	**53,373,598**
Federal Home Loan Mortgage Corporation	**37,093,929**	**41,086**	**410,283**	**36,724,732**
Government National Mortgage Association	**3,375,244**	**149,782**	**3,925**	**3,521,101**
Total mortgage-backed securities	**134,574,564**	**432,158**	**2,414,567**	**132,592,155**
Federal Home Loan Bank agency notes	**59,967,566**	**562,121**	**25,000**	**60,504,687**
Federal Farm Credit Bank agency notes	**26,978,129**	**239,997**	**—**	**27,218,126**
Total obligations of U.S. government corporations and government sponsored enterprises	**221,520,259**	**1,234,276**	**2,439,567**	**220,314,968**
Obligations of state and political institutions	**18,946,036**	**201,241**	**4,972**	**19,142,305**
Trust preferred securities	**5,090,175**	**127**	**787,192**	**4,303,110**
Corporate securities	**13,584,038**	**—**	**774,071**	**12,809,967**
Federal Reserve Bank stock	**1,130,700**	**—**	**—**	**1,130,700**
Federal Home Loan Bank stock	**5,359,700**	**—**	**—**	**5,359,700**
Other securities	**304,442**	**15,378**	**—**	**319,820**
Total	**$ 265,935,350**	**$ 1,451,022**	**$ 4,005,802**	**$ 263,380,570**

December 31, 2006				
Obligations of U.S. government corporations and government sponsored enterprises				
Mortgage-backed securities				
CMOs (Federal National Mortgage Association)	$ 8,878,785	$ —	$ 506,631	$ 8,372,154
CMOs (Federal Home Loan Mortgage Corporation)	22,763,787	—	1,180,057	21,583,730
Federal National Mortgage Association	46,162,388	54,871	1,175,367	45,041,892
Federal Home Loan Mortgage Corporation	43,338,106	6,563	1,214,411	42,130,258
Government National Mortgage Association	4,166,482	104,737	3,676	4,267,543
Total obligations of U.S. government corporations and government sponsored enterprises—mortgage-backed securities	125,309,548	166,171	4,080,142	121,395,577
Obligations of state and political subdivisions	21,551,135	116,099	66,392	21,600,842

Trust preferred securities	1,179,936	70,059	1,376	1,248,619
Federal Reserve Bank stock	1,130,700	—	—	1,130,700
Federal Home Loan Bank stock	2,719,100	—	—	2,719,100
Other securities	304,442	21,607	—	326,049
Total	$ 152,194,861	$ 373,936	$ 4,147,910	$ 148,420,887

The carrying value and estimated fair value of securities held to maturity are as follows:

December 31, 2007	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Obligations of U.S. government corporations and government sponsored enterprises				
Mortgage-backed securities				
CMOs (Federal National Mortgage Association)	**$ 12,349,723**	**$ —**	**$ 629,469**	**$ 11,720,254**
CMOs (Federal Home Loan Mortgage Corporation)	**21,195,565**	**4,887**	**767,806**	**20,432,646**
Federal National Mortgage Association	**172,362,300**	**969,657**	**975,657**	**172,356,300**
Federal Home Loan Mortgage Corporation	**121,980,069**	**197,532**	**1,927,790**	**120,249,811**
Government National Mortgage Association	**8,725,725**	**336,882**	**—**	**9,062,607**
Total mortgage-backed securities	**336,613,382**	**1,508,958**	**4,300,722**	**333,821,618**
Federal Home Loan Bank agency notes	**24,997,465**	**657,223**	**—**	**25,654,688**
Total obligations of U.S. government corporations and government sponsored enterprises	**361,610,847**	**2,166,181**	**4,300,722**	**359,476,306**
Debt securities issued by foreign governments	**250,000**	**—**	**1,298**	**248,702**
Total	**$ 361,860,847**	**$ 2,166,181**	**$ 4,302,020**	**$ 359,725,008**

December 31, 2006	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Obligations of U.S. government corporations and government sponsored enterprises				
Mortgage-backed securities				
CMOs (Federal National Mortgage Association)	$ 12,787,247	$ —	$ 538,181	$ 12,249,066
CMOs (Federal Home Loan Mortgage Corporation)	22,859,880	—	1,118,171	21,741,709
Federal National Mortgage Association	206,573,458	289,056	4,022,690	202,839,824
Federal Home Loan Mortgage Corporation	142,536,442	70,046	3,936,637	138,669,851
Government National Mortgage Association	10,654,868	245,945	361	10,900,452
Total mortgage-backed securities	395,411,895	605,047	9,616,040	386,400,902
Federal Home Loan Bank agency notes	9,991,535	—	52,472	9,939,063
Federal Farm Credit Bank agency notes	15,000,000	—	184,375	14,815,625
Total obligations of U.S. government corporations and government sponsored enterprises	420,403,430	605,047	9,852,887	411,155,590
Debt securities issued by foreign governments	500,000	—	4,900	495,100
Total	$ 420,903,430	$ 605,047	$ 9,857,787	$ 411,650,690

The following table presents information regarding securities available for sale with temporary unrealized losses for the periods indicated:

	Less Than 12 Months		12 Months or Longer		Total	
December 31, 2007	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Obligations of U.S. government corporations and government sponsored enterprises						
Mortgage-backed securities						
CMOs (Federal National Mortgage Association)	**$ —**	**$ —**	**$ 8,439,492**	**$ 365,936**	**$ 8,439,492**	**$ 365,936**
CMOs (Federal Home Loan Mortgage Corporation)	**—**	**—**	**21,438,588**	**959,349**	**21,438,588**	**959,349**
CMOs (Government National Mortgage Association)	**9,094,643**	**47,250**	**—**	**—**	**9,094,643**	**47,250**
Federal National Mortgage Association	**9,971,965**	**93,946**	**26,422,330**	**533,878**	**36,394,295**	**627,824**
Federal Home Loan Mortgage Corporation	**—**	**—**	**30,752,781**	**410,283**	**30,752,781**	**410,283**
Government National Mortgage Association	**—**	**—**	**157,674**	**3,925**	**157,674**	**3,925**
Total obligations of U.S. government corporations and government sponsored enterprises—mortgage-backed securities	**19,066,608**	**141,196**	**87,210,865**	**2,273,371**	**106,277,473**	**2,414,567**
Federal Home Loan Bank agency notes	**4,975,000**	**25,000**	**—**	**—**	**4,975,000**	**25,000**
Total obligations of U.S. government corporations and government sponsored enterprises	**24,041,608**	**166,196**	**87,210,865**	**2,273,371**	**111,252,473**	**2,439,567**
Obligations of state and political institutions	**450,293**	**1,737**	**1,088,106**	**3,235**	**1,538,399**	**4,972**
Trust preferred securities	**3,400,710**	**627,192**	**840,000**	**160,000**	**4,240,710**	**787,192**
Corporate securities	**12,809,967**	**774,071**	**—**	**—**	**12,809,967**	**774,071**
Total	**$ 40,702,578**	**$ 1,569,196**	**$ 89,138,971**	**$ 2,436,606**	**$ 129,841,549**	**$ 4,005,802**

December 31, 2006						
U.S. Treasury securities						
Obligations of U.S. government corporations and government sponsored enterprises						
Mortgage-backed securities						
CMOs (Federal National Mortgage Association)	$ —	$ —	$ 8,372,154	$ 506,631	$ 8,372,154	$ 506,631
CMOs (Federal Home Loan Mortgage Corporation)	—	—	21,583,730	1,180,057	21,583,730	1,180,057
Federal National Mortgage Association	6,036,667	36,404	34,945,463	1,138,963	40,982,130	1,175,367
Federal Home Loan Mortgage Corporation	6,310,222	74,863	35,451,592	1,139,548	41,761,814	1,214,411
Government National Mortgage Association	—	—	200,575	3,676	200,575	3,676
Total obligations of U.S. government corporations and government sponsored enterprises—mortgage-backed securities	12,346,889	111,267	100,553,514	3,968,875	112,900,403	4,080,142
Obligations of state and political subdivisions	5,411,216	19,676	2,953,533	46,716	8,364,749	66,392
Trust preferred securities	160,916	1,376	—	—	160,916	1,376

Total	$ 17,919,021	$ 132,319	$ 103,507,047	$ 4,015,591	$ 121,426,068	$ 4,147,910

The following table presents information regarding securities held to maturity with temporary unrealized losses for the periods indicated:

	Less Than 12 Months		12 Months or Longer		Total	
December 31, 2007	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Obligations of U.S. government corporations and government sponsored enterprises						
Mortgage-backed securities						
CMOs (Federal National Mortgage Association)	**$ —**	**$ —**	**$ 11,720,254**	**$ 629,469**	**$ 11,720,254**	**$ 629,469**
CMOs (Federal Home Loan Mortgage Corporation)	**—**	**—**	**16,307,337**	**767,806**	**16,307,337**	**767,806**
Federal National Mortgage Association	**—**	**—**	**90,955,257**	**975,657**	**90,955,257**	**975,657**
Federal Home Loan Mortgage Corporation	**—**	**—**	**100,916,760**	**1,927,790**	**100,916,760**	**1,927,790**
Total obligations of U.S. government corporations and agencies—mortgage-backed securities	**—**	**—**	**219,899,608**	**4,300,722**	**219,899,608**	**4,300,722**
Debt securities issued by foreign governments	**—**	**—**	**248,702**	**1,298**	**248,702**	**1,298**
Total	**$ —**	**$ —**	**$ 220,148,310**	**$ 4,302,020**	**$ 220,148,310**	**$ 4,302,020**
December 31, 2006						
Obligations of U.S. government corporations and government sponsored enterprises						
Mortgage-backed securities						
CMOs (Federal National Mortgage Association)	$ —	$ —	$ 12,249,066	$ 538,181	$ 12,249,066	$ 538,181
CMOs (Federal Home Loan Mortgage Corporation)	—	—	21,741,709	1,118,171	21,741,709	1,118,171
Federal National Mortgage Association	8,378,552	39,411	84,062,278	3,983,279	92,440,830	4,022,690
Federal Home Loan Mortgage Corporation	509,958	2,089	135,026,445	3,934,548	135,536,403	3,936,637
Government National Mortgage Association	5,211	24	15,160	337	20,371	361
Total mortgage-backed securities	8,893,721	41,524	253,094,658	9,574,516	261,988,379	9,616,040
Federal Home Loan Bank agency notes	—	—	9,939,063	52,472	9,939,063	52,472
Federal Farm Credit Bank agency notes	—	—	14,815,625	184,375	14,815,625	184,375
Total obligations of U.S. government corporations and government sponsored enterprises	8,893,721	41,524	277,849,346	9,811,363	286,743,067	9,852,887
Debt securities issued by foreign governments	—	—	245,100	4,900	245,100	4,900
Total	$ 8,893,721	$ 41,524	$ 278,094,446	$ 9,816,263	$ 286,988,167	$ 9,857,787

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

The following tables present information regarding securities available for sale and securities held to maturity at December 31, 2007, based on contractual maturity. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties. The average yield on obligations of state and political subdivisions and Federal Reserve Bank securities is stated on a tax-equivalent basis.

Available for sale	Amortized Cost	Estimated Fair Value	Weighted Average Yield
Obligations of U.S. government corporations and government sponsored enterprises			
Mortgage-backed securities			
CMOs (Federal National Mortgage Association)	$ 8,805,428	$ 8,439,492	4.52%
CMOs (Federal Home Loan Mortgage Corporation)	22,397,938	21,438,589	4.52
CMOs (Government National Mortgage Association)	9,141,893	9,094,643	5.05
Federal National Mortgage Association	53,760,132	53,373,598	4.72
Federal Home Loan Mortgage Corporation	37,093,929	36,724,732	4.60
Government National Mortgage Association	3,375,244	3,521,101	5.97
Total obligations of U.S. government corporations and government sponsored enterprises—mortgage-backed securities	134,574,564	132,592,155	4.70
Federal Home Loan Bank agency notes			
Due after 5 years	59,967,566	60,504,687	5.89
Federal Farm Credit Bank agency notes			
Due after 5 years	26,978,129	27,218,126	5.77
Total obligations of U.S. government corporations and government sponsored enterprises	86,945,695	87,722,813	5.86
Obligations of state and political institutions			
Due within 1 year	1,226,660	1,235,742	5.89
Due after 1 year but within 5 years	5,342,284	5,412,773	5.29
Due after 5 years	12,377,092	12,493,790	5.63
Total obligations of state and political institutions	18,946,036	19,142,305	5.55
Trust preferred securities			
Due after 5 years	5,090,175	4,303,110	8.50
Corporate securities	13,584,038	12,809,967	7.47
Federal Reserve Bank stock	1,130,700	1,130,700	6.00
Federal Home Loan Bank stock	5,359,700	5,359,700	3.58
Other securities	304,442	319,820	3.52
Total available for sale	$ 265,935,350	$ 263,380,570	5.18

Held to maturity	Carrying Value	Estimated Fair Value	Weighted Average Yield
Obligations of U.S. government corporations and government sponsored enterprises			
Mortgage-backed securities			
CMOs (Federal National Mortgage Association)	$ 12,349,723	$ 11,720,254	4.57%
CMOs (Federal Home Loan Mortgage Corporation)	21,195,565	20,432,646	4.48
Federal National Mortgage Association	172,362,300	172,356,300	4.82
Federal Home Loan Mortgage Corporation	121,980,069	120,249,811	4.39
Government National Mortgage Association	8,725,725	9,062,607	6.47
Total mortgage-backed securities	336,613,382	333,821,618	4.68
Federal Home Loan Bank agency notes			
Due within 1 year	4,997,465	5,004,688	4.59
Due after 1 year but within 5 years	20,000,000	20,650,000	6.17
Total obligations of U.S. government corporations and government sponsored enterprises	361,610,847	359,476,306	4.76
Debt securities issued by foreign governments			
Due after 1 year but within 5 years	250,000	248,702	4.70
Total	$ 361,860,847	$ 359,725,008	4.76

Information regarding calls of held to maturity securities is as follows:

Years Ended December 31,	**2007**	2006	2005
Proceeds	**$ 34,110,000**	$ —	$ —
Gross gains	**—**	—	—
Gross losses	**4,445**	—	—

During 2005, as permitted under the provisions of SFAS No. 115, the Company sold approximately $5,303,000 (par amount) of held to maturity securities because over 85% of the original principal on these securities had been paid by the sale date. The proceeds from the sale were $5,452,162 and the gain was $127,804. There were no sales of held to maturity securities in 2007 or 2006.

Information regarding securities sales and/or calls of the available for sale portfolio is as follows:

Years Ended December 31,	**2007**	2006	2005
Proceeds	**$ 30,423,093**	$ 25,371,314	$ 3,213,055
Gross gains	**193,397**	18,016	209,653
Gross losses	**586**	461,133	—

The proceeds from available for sale securities sold during 2006 were utilized to partially fund the acquisition of Sterling Resource Funding Corp.

Investment securities are pledged 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.

NOTE 6.

LOANS

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

December 31,	**2007**	2006
Loans held for sale, net of valuation reserve ($64,958 at December 31, 2007 and $-0- at December 31, 2006)		
Real estate—residential mortgage	**$ 23,755,906**	$ 33,319,789
Loans held in portfolio		
Commercial and industrial	**$ 539,969,407**	$ 522,009,835
Lease financing	**287,563,583**	239,225,533
Factored receivables	**93,016,702**	100,467,090
Real estate—residential mortgage	**129,464,803**	120,056,900
Real estate—commercial mortgage	**99,093,560**	93,214,668
Real estate—construction and land development	**37,161,197**	30,030,684
Installment	**12,103,045**	12,380,848
Loans to depository institutions	**27,000,000**	27,000,000
Loans held in portfolio, gross	**1,225,372,297**	1,144,385,558
Less unearned discounts	**38,248,313**	31,783,938
Loans held in portfolio, net of unearned discounts	**$ 1,187,123,984**	$ 1,112,601,620

There are no industry concentrations (exceeding 10% of loans, gross) in the commercial and industrial loan portfolio. Approximately 72% of loans are to borrowers located in the New York metropolitan area.

Nonaccrual loans at December 31, 2007 and 2006 totaled $6,383,000 and $5,861,000, respectively. There were no reduced rate loans at December 31, 2007 or 2006. The interest income that would have been earned on nonaccrual loans outstanding at December 31, 2007, 2006 and 2005 in accordance with their original terms is estimated to be $655,000, $545,000 and $294,000, respectively, for the years then ended. Applicable interest income actually realized was $222,000, $335,000 and $95,000, respectively, for the aforementioned years, and there were no commitments to lend additional funds on nonaccrual loans.

Loans are made at normal lending limits and credit terms to officers or directors (including their immediate families) of the Company or for the benefit of corporations in which they have a beneficial interest. There were no outstanding balances on such loans in excess of $60,000 to any individual or entity at December 31, 2007 or 2006.

NOTE 7.

ALLOWANCE FOR LOAN LOSSES

Years Ended December 31,	**2007**	2006	2005
Balance at beginning of year	**$ 16,287,974**	$ 15,369,096	$ 14,437,268
Provision for loan losses	**5,853,330**	4,502,596	5,214,000

	22,141,304	19,871,692	19,651,268
Less charge-offs, net of recoveries:			
Charge-offs	**6,489,902**	5,940,340	4,560,562
Recoveries	**705,614**	1,165,852	373,191
Net charge-offs	**5,784,288**	4,774,488	4,187,371
Add allowance from acquisition	**—**	1,845,500	—
Less losses on transfers to other real estate owned	**1,272,241**	654,730	94,801
Balance at end of year	**$ 15,084,775**	$ 16,287,974	$ 15,369,096

The Company follows SFAS No. 114, which establishes standards for measuring certain components of the allowance for loan losses. As of December 31, 2007, 2006 and 2005, $610,000, $592,000 and $276,000, respectively, of loans were judged to be impaired within the scope of SFAS No. 114, with interest income recognized on a cash basis. The average recorded investment in impaired loans during the years ended December 31, 2007, 2006 and 2005, was approximately $495,000, $388,000 and $325,000, respectively. The application of SFAS No. 114 indicated that these loans required valuation allowances totaling $185,000, $255,000 and $90,000 at December 31, 2007, 2006 and 2005, respectively, which are included within the overall allowance for loan losses. The interest income that would have been earned on impaired loans outstanding at December 31, 2007, 2006 and 2005 in accordance with their original terms is estimated to be $10,000, $5,000 and $21,000, respectively, for the years then ended. Applicable interest income actually realized was $-0-, $1,000 and $14,000, respectively, for the aforementioned years, and there were no commitments to lend additional funds on impaired loans.

NOTE 8.

PREMISES AND EQUIPMENT

The following table presents information on premises and equipment:

December 31,	**2007**	2006
Land and building	**$ 254,451**	$ 254,451
Furniture and equipment	**13,573,446**	11,825,084
Leasehold improvements	**10,716,832**	10,625,541
	24,544,729	22,705,076
Accumulated amortization and depreciation	**13,365,846**	11,381,427
Premises and equipment, net	**$ 11,178,883**	$ 11,323,649
Amortization and depreciation expense	**$ 2,549,617**	$ 2,348,025

NOTE 9.

INTEREST-BEARING DEPOSITS

The following table presents certain information for interest expense on deposits:

Years Ended December 31,	**2007**	2006	2005
Interest expense			
Interest-bearing deposits in domestic offices			
Savings	**$ 100,770**	$ 100,961	$ 113,351
NOW	**5,903,410**	3,787,228	1,576,286
Money Market	**7,078,921**	4,695,873	2,455,378
Time			
Three months or less	**11,217,497**	8,509,506	6,304,214
More than three months through twelve months	**12,266,010**	8,752,571	5,268,657
More than twelve months through twenty-three months	**964,545**	2,508,594	1,844,937
More than twenty-four months through thirty-five months	**1,065,138**	161,758	117,490
More than thirty-six months through forty-seven months	**97,275**	11,305	31,160
More than forty-eight months through sixty months	**21,703**	453,986	389,585

More than sixty months	**41,395**	1,662	929
	38,756,664	28,983,444	18,101,987
Interest-bearing deposits in foreign offices			
Time			
Three months or less	**4,302**	19,262	17,889
More than three months through twelve months	**1,970**	8,722	14,974
Total	**$ 38,762,936**	$ 29,011,428	$ 18,134,850

Foreign deposits totaled $575,817 and $573,857 at December 31, 2007 and 2006, respectively.

The aggregate of time certificates of deposit and other time deposits in denominations of $100,000 or more was $411,019,063 and $394,447,813 at December 31, 2007 and 2006, respectively.

The aggregate of time certificates of deposit and other time deposits by remaining maturity range is presented below:

December 31,	**2007**	2006	2005
Domestic			
Three months or less	**$ 216,023,376**	$ 203,038,151	$ 252,383,369
More than three months through six months	**155,009,636**	97,977,566	80,472,379
More than six months through twelve months	**101,676,791**	145,828,880	92,828,189
More than twelve months through twenty-three months	**48,137,470**	78,808,380	67,897,087
More than twenty-four months through thirty-five months	**1,269,779**	1,035,380	4,268,663
More than thirty-six months through forty-seven months	**472,308**	336,812	143,925
More than forty-eight months through sixty months	**1,022,353**	353,232	233,220
More than sixty months	**1,220**	34,563	19,797
	523,612,933	527,412,964	498,246,629
Foreign			
Three months or less	**395,000**	395,000	1,645,037
More than three months through six months	**180,817**	178,857	1,376,991
	575,817	573,857	3,022,028
Total	**$ 524,188,750**	$ 527,986,821	$ 501,268,657

Interest expense related to the aggregate of time certificates of deposit and other time deposits is presented below:

Years Ended December 31,	**2007**	2006	2005
Interest expense			
Domestic	**$ 25,673,563**	$ 20,399,382	$ 13,956,972
Foreign	**6,272**	27,984	32,863
Total	**$ 25,679,835**	$ 20,427,366	$ 13,989,835

NOTE 10.

SHORT-TERM BORROWINGS

The following table presents information regarding Federal funds purchased, securities sold under agreements to repurchase—customers and dealers, and commercial paper:

Years Ended December 31,		**2007**	2006	2005
Securities sold under agreements to repurchase—customers				
At December 31	—Balance	**$ 60,053,947**	$ 52,802,796	$ 61,067,073
	—Average interest rate	**3.42%**	4.92%	2.81%
	—Average original maturity	**37 Days**	55 Days	14 Days
During the year	—Maximum month-end balance	**97,404,318**	94,132,979	88,845,220
	—Daily average balance	**80,649,000**	86,418,000	85,365,000
	—Average interest rate paid	**4.21%**	4.05%	2.23%
	—Range of interest rates paid	**2.50–5.85%**	2.00–5.70%	1.50–4.25%
Securities sold under agreements to repurchase—dealers				
At December 31	—Balance	**$ 10,200,000**	$ —	$ 88,729,000
	—Average interest rate	**5.02%**	—	4.40%
	—Average original maturity	**7 Days**	—	23 Days
During the year	—Maximum month-end balance	**30,000,000**	123,200,000	88,729,000
	—Daily average balance	**6,470,000**	74,057,000	52,199,000
	—Average interest rate paid	**4.78%**	5.05%	3.44%
	—Range of interest rates paid	**4.48–5.02%**	4.33–5.40%	2.40–4.45%
Federal funds purchased				
At December 31	—Balance	**$ 65,000,000**	$ —	$ 55,000,000
	—Average interest rate	**4.17%**	—	4.20%
	—Average original maturity	**1 Day**	—	1 Day
During the year	—Maximum month-end balance	**65,000,000**	20,000,000	55,300,000
	—Daily average balance	**9,281,000**	15,133,000	17,992,000
	—Average interest rate paid	**4.63%**	5.08%	3.60%
	—Range of interest rates paid	**3.50–5.31%**	4.25–5.44%	2.25–4.50%
Commercial paper				
At December 31	—Balance	**$ 20,878,494**	$ 27,561,567	$ 38,191,016
	—Average interest rate	**4.51%**	4.91%	3.22%
	—Average original maturity	**61 Days**	50 Days	41 Days
During the year	—Maximum month-end balance	**28,750,718**	52,714,141	42,323,187
	—Daily average balance	**26,731,000**	44,539,000	37,302,000
	—Average interest rate paid	**5.05%**	4.53%	2.61%
	—Range of interest rates paid	**3.50–5.62%**	2.00–5.70%	1.25–4.15%

The parent company has agreements with its line banks for back-up lines of credit for which it pays a fee at the annual rate of ¼ of 1% times the line of credit extended. At December 31, 2007, these back-up bank lines of credit totaled $24,000,000; no lines were used at any time during 2007, 2006 or 2005.

Other short-term borrowings include advances from the Federal Home Loan Bank of New York ("FHLB") due within one year and treasury tax and loan funds. At December 31, 2007, FHLB borrowings included an advance of $45,000,000 payable on January 2, 2008 at a rate of 4.11%. At December 31, 2006, there were no short-term borrowings from the FHLB. At December 31, 2005, FHLB borrowings included an advance of $35,000,000 payable on January 3, 2006 at a rate of 4.32%.

NOTE 11.

LONG-TERM BORROWINGS

These borrowings represent advances from the FHLB and junior subordinated debt securities issued by the parent company.

The following table presents information regarding fixed rate FHLB advances:

Advance Type	Interest Rate	Maturity Date	Initial Call Date	December 31, 2007	December 31, 2006
Callable	4.106%	10/23/09	1/23/09	**$ 20,000,000**	$ —
Callable	4.013	11/2/09	5/2/08	**10,000,000**	—
Callable	4.70	2/22/11	2/20/03	**10,000,000**	10,000,000
Callable	4.28	10/17/11	10/15/06	—	10,000,000
Total				**$ 40,000,000**	$ 20,000,000
Weighted-average interest rate				**4.23%**	4.49%

Under the terms of a collateral agreement with the FHLB, advances are secured by stock in the FHLB and by certain qualifying assets (primarily mortgage-backed securities) having market values at least equal to 110% of the advances outstanding. After the initial call date, each callable advance is callable by the FHLB quarterly from the initial call date, at par.

In February 2002, the parent company completed its issuance of trust capital securities ("capital securities") that raised $25,000,000 ($24,062,500 net proceeds after issuance costs). The 8.375% capital securities, due March 31, 2032, were issued by Sterling Bancorp Trust I (the "trust"), a wholly-owned non-consolidated statutory business trust. The trust was formed with initial capitalization of common stock and for the exclusive purpose of issuing the capital securities. The trust used the proceeds from the issuance of the capital securities to acquire $25,774,000 junior subordinated debt securities that pay interest at 8.375% ("debt securities") issued by the parent company. The debt securities are due concurrently with the capital securities which may not be redeemed, except under limited circumstances, until March 31, 2007, and thereafter at a price equal to their principal amount plus interest accrued to the date of redemption. The Company may also reduce outstanding capital securities through open market purchases. During 2007, the parent company purchased in the open market $196,000 par amount of the capital securities at an average price of $9.78; these securities are included in the Company's securities available for sale. These securities are considered to be outstanding for the payment of dividends but are considered to be redeemed for the calculation of the regulatory capital ratios. There were no purchases prior to 2007. As a result of these repurchases, the amounts of capital securities held by third parties at December 31, 2007 and 2006 were $24,804,000 and $25,000,000 respectively. Dividends and interest are paid quarterly.

The parent company has the right to defer payments of interest on the debt securities at any time or from time to time for a period of up to 20 consecutive quarterly periods with respect to each deferral period. Under the terms of the debt securities, in the event that under certain circumstances there is an event of default under the debt securities or the parent company has elected to defer interest on the debt securities, the parent company may not, with certain exceptions, declare or pay any dividends or distributions on its capital stock or purchase or acquire any of its capital stock.

Payments of distributions on the capital securities and payments on redemption of the capital securities are guaranteed by the parent company on a limited basis. The parent company also entered into an agreement as to expenses and liabilities pursuant to which it agreed, on a subordinated basis, to pay any costs, expenses or liabilities of the trust other than those arising under the capital securities. The obligations of the parent company under the debt securities, the related indenture, the trust agreement establishing the trust, the guarantee and the agreement as to expenses and liabilities, in the aggregate, constitute a full and unconditional guarantee by the parent company of the trust's obligations under the capital securities.

Notwithstanding that the accounts of the trust are not included in the Company's consolidated financial statements, the amount of capital securities issued by the trust and held by third parties is included in the Tier 1 capital of the parent company for regulatory capital purposes as allowed by the Federal Reserve Board. In March 2005, the Federal Reserve Board adopted a rule that would continue to allow the inclusion of capital securities issued by unconsolidated subsidiary trusts in Tier 1 capital, but with stricter quantitative limits. Under the final rule, after a five-year transition period, the aggregate amount of capital securities and certain other capital elements would be limited to 25% of Tier 1 capital, net of goodwill less any associated deferred tax liability. Based on the final rule, the parent company expects to continue to include the amount of capital securities held by third parties in Tier 1 capital.

NOTE 12.

COMMON STOCK

The following tables provide information regarding the number of common shares issued and the number of shareholders:

	Number of Shares Issued	
Years Ended December 31,	**2007**	2006
Issued at beginning of year	**21,177,084**	21,066,916
Shares issued under stock incentive plan	**101,447**	110,168
Issued at end of year	**21,278,531**	21,177,084

December 31,	**2007**	2006
Number of shareholders	**1,481**	1,558

NOTE 13.

TREASURY STOCK

The following table provides information regarding the number of shares held by the Company:

	Number of Shares Held	
Years Ended December 31,	**2007**	2006
Held at beginning of year	**2,572,368**	2,231,442
Purchases	**862,000**	308,556
Surrender of shares issued under incentive compensation plan	**24,934**	32,370
Held at end of year	**3,459,302**	2,572,368

NOTE 14.

ACCUMULATED OTHER COMPREHENSIVE LOSS

The following table presents the components of accumulated other comprehensive loss as of December 31, 2007 and 2006 included in shareholders' equity:

	Pre-tax Amount	Tax Effect	After-tax Amount

December 31, 2007			
Net unrealized (loss) on securities	**$ (1,921,833)**	**$ 867,253**	**$ (1,054,580)**
Adjustment for underfunded pension obligations	**(17,818,033)**	**8,060,802**	**(9,757,231)**
Total	**$ (19,739,866)**	**$ 8,928,055**	**$ (10,811,811)**
December 31, 2006			
Net unrealized (loss) on securities	$ (3,251,833)	$ 1,467,962	$ (1,783,871)
Adjustment for underfunded pension obligations	(18,356,837)	8,297,800	(10,059,037)
Total	$ (21,608,670)	$ 9,765,762	$ (11,842,908)

NOTE 15.

RESTRICTIONS ON THE BANK

Various legal restrictions limit the extent to which the bank can supply funds to the parent company and its nonbank subsidiaries. All national banks are limited in the payment of dividends 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. In addition, from time to time dividends are paid to the parent company by the finance subsidiaries from their retained earnings without regulatory restrictions. As of December 31, 2007, the bank could pay dividends of approximately $20,000,000 to the parent company, without regulatory approval and without adversely affecting the bank's "well capitalized" status.

NOTE 16.

STOCK INCENTIVE PLAN

In April 1992, shareholders approved a Stock Incentive Plan ("the plan") covering up to 100,000 common shares of the parent company. Under the plan, key employees of the parent company and its subsidiaries could be granted awards in the form of incentive stock options ("ISOs"), non-qualified stock options ("NQSOs"), stock appreciation rights ("SARs"), restricted stock or a combination of these. The plan is administered by a committee of the Board of Directors. Since the inception of the plan, shareholders have approved amendments increasing the number of shares covered under the plan; the total number of shares authorized by shareholders through December 31, 2007 was 2,650,000. The plan provides for proportional adjustment to the number of shares covered by the plan and by outstanding awards, and in the exercise price of outstanding stock options, to reflect, among other things, stock splits and stock dividends. After giving effect to stock option and restricted stock awards granted and the effect of the 5% stock dividend effected December 12, 2005, the six-for-five stock split in the form of a stock dividend effected in December 2004, the five-for-four stock split in the form of a stock dividend effected September 10, 2003, the 20% stock dividend paid in December 2002, the 10% stock dividends paid in December 2001 and December 2000, and the 5% stock dividend paid in December 1999, shares available for grant were 458,533, 469,427 and 504,287 at December 31, 2007, 2006 and 2005, respectively. The Company issues new shares to satisfy stock option exercises.

Stock Options

The following tables present information on the qualified and non-qualified stock options outstanding (after the effect of the stock dividends/splits discussed above) as of December 31, 2007, 2006 and 2005 and changes during the years then ended:

	2007		2006		2005	
Qualified Stock Options	**Number of Options**	**Weighted-Average Exercise Price**	Number of Options	Weighted-Average Exercise Price	Number of Options	Weighted-Average Exercise Price
Outstanding at beginning of year	**528,916**	**$ 10.45**	570,094	$ 10.26	750,808	$ 10.07
Exercised	**(83,359)**	**8.17**	(39,288)	7.97	(68,693)	9.32
Reclassified[1]	**—**		—		(112,021)	9.59
Forfeited	**—**		(1,890)	14.60	—	
Outstanding at end of year	**445,557**	**10.87**	528,916	10.45	570,094	10.26
Options exercisable at end of year	**349,105**		401,762		388,165	

	2007		2006		2005	
Non-Qualified Stock Options	**Number of Options**	**Weighted-Average Exercise Price**	Number of Options	Weighted-Average Exercise Price	Number of Options	Weighted-Average Exercise Price
Outstanding at beginning of year	**1,326,327**	**$ 12.79**	1,360,457	$ 12.69	1,363,272	$ 11.30
Granted	**112,500**	**17.99**	37,800	19.50	137,025	25.35
Exercised	**(18,088)**	**6.48**	(70,880)	14.41	(226,813)	9.10
Reclassified[1]	**—**		—		112,021	9.59
Forfeited	**(101,606)**	**18.94**	(1,050)	26.94	(25,048)	24.99
Outstanding at end of year	**1,319,133**	**12.85**	1,326,327	12.79	1,360,457	12.69
Options exercisable at end of year	**1,183,281**		1,288,527		1,355,920	

Weighted-average fair value of options granted during the year	**$ 3.80**	$ 4.90	$ 3.50

[1] *As a result of retirements and terminations. Since these provisions were included in the original terms of the awards, these reclassifications are not considered modifications.*

On December 15, 2005, the Compensation Committee of the Board of Directors approved the accelerated vesting and exercisability of all unvested and unexercisable stock options to purchase common shares of the Company held by directors or officers on December 19, 2005. Management proposed the acceleration of vesting to eliminate the impact of adopting SFAS No. 123R, *Share-Based Payment* ("SFAS No. 123R"), on the consolidated financial statements insofar as existing options are concerned. As a result, options to purchase 223,913 common shares, which would otherwise have vested and become exercisable from time to time over the next four years, became fully vested and immediately exercisable as of December 19, 2005. The number of shares and exercise prices of the options subject to acceleration were unchanged. The accelerated options had exercise prices between $15.82 and $26.94 per share, with a total weighted average exercise price per share of $22.70. The accelerated options included 170,093 out-of-the money options and 53,820 in-the-money options. The Company estimates that accelerating the vesting and exercisability of the 223,913 options discussed above eliminated approximately $0.7 million of non-cash compensation expense that would otherwise have been recorded in the Company's income statements for future periods upon its adoption, as of January 1, 2006, of SFAS No. 123R.

In order to limit unintended personal benefits to officers and directors, the Compensation Committee imposed transfer restrictions on any shares received by an optionee upon exercise of an accelerated option before the earliest date on which, without giving effect to such acceleration, such option would nonetheless have been vested and exercisable in respect of such shares (assuming the optionee remained an employee or member of the Board of Directors, as applicable). Such transfer restrictions will expire on the earlier of such earliest date or the date of the optionee's death.

The following table presents information regarding qualified and non-qualified stock options outstanding at December 31, 2007:

Options Outstanding	Options Exercisable