

## Section 1: 10-Q (10-Q)

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

**FORM 10-Q**

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

**For the quarterly period ended June 30, 2020**

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

Commission File Number: 001-35385

**STERLING BANCORP**

(Exact Name of Registrant as Specified in its Charter)

|  |  |
|--|--|
| Delaware<br>(State or Other Jurisdiction of<br>Incorporation or Organization)<br>400 Rella Boulevard,<br>Montebello, New York<br>(Address of Principal Executive Office) | 80-0091851<br>(IRS Employer ID No.)<br><br>10901<br>(Zip Code) |
|--|--|

(845) 369-8040  
(Registrant's Telephone Number including area code)

| Title of each class   | Trading Symbol(s) | Name of each exchange on which registered |
|---|-------------------|---|
| Common Stock, par value \$0.01 per share  | STL               | New York Stock Exchange                   |
| Depository Shares, each representing 1/40 interest in a share of 6.50% Non-Cumulative Perpetual Preferred Stock, Series A | STLPRA            | New York Stock Exchange                   |

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 twelve months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically, if any, every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Classes of Common Stock

\$0.01 per share

Shares outstanding as of July 29 2020

194,478,227

**STERLING BANCORP AND SUBSIDIARIES**  
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**STERLING BANCORP AND SUBSIDIARIES**  
Consolidated Balance Sheets (Unaudited)  
(Dollars in thousands, except share and per share data)

|  | June 30,<br>2020     | December 31,<br>2019 |
|--|----------------------|----------------------|
| <b>ASSETS:</b>   |                      |                      |
| Cash and due from banks  | \$ 324,729           | \$ 329,151           |
| Securities available for sale, at estimated fair value   | 2,620,624            | 3,095,648            |
| Securities held to maturity (“HTM”), (net of allowance for credit losses of \$2,499 at June 30, 2020)  | 1,924,955            | 1,979,661            |
| Loans held for sale  | 44,437               | 8,125                |
| Portfolio loans  | 22,295,267           | 21,440,212           |
| Allowance for credit losses - loans  | (365,489)            | (106,238)            |
| Portfolio loans, net   | 21,929,778           | 21,333,974           |
| Federal Home Loan Bank (“FHLB”) and Federal Reserve Bank (“FRB”) stock, at cost  | 193,666              | 251,805              |
| Accrued interest receivable  | 101,296              | 100,312              |
| Premises and equipment, net  | 226,728              | 227,070              |
| Goodwill   | 1,683,482            | 1,683,482            |
| Other intangible assets, net   | 101,964              | 110,364              |
| Bank owned life insurance (“BOLI”)   | 620,908              | 613,848              |
| Other real estate owned  | 8,665                | 12,189               |
| Other assets   | 1,058,661            | 840,868              |
| <b>Total assets</b>  | <b>\$ 30,839,893</b> | <b>\$ 30,586,497</b> |
| <b>LIABILITIES AND STOCKHOLDERS’ EQUITY</b>  |                      |                      |
| <b>LIABILITIES:</b>  |                      |                      |
| Deposits   | \$ 23,600,621        | \$ 22,418,658        |
| FHLB and other borrowings  | 975,058              | 2,245,653            |
| Paycheck Protection Program Lending Facility   | 568,350              | —                    |
| Repurchase agreements  | 26,448               | 22,678               |
| Senior Notes   | —                    | 173,504              |
| Subordinated Notes - Bank  | 173,307              | 173,182              |
| Subordinated Notes - Company   | 271,096              | 270,941              |
| Mortgage escrow funds  | 69,686               | 58,316               |
| Other liabilities  | 671,140              | 693,452              |
| <b>Total liabilities</b>   | <b>26,355,706</b>    | <b>26,056,384</b>    |
| <b>Commitments and Contingent liabilities (See Note 15. “Commitments and Contingencies”)</b>   |                      |                      |
| <b>STOCKHOLDERS’ EQUITY:</b>   |                      |                      |
| Preferred stock (par value \$0.01 per share; 10,000,000 shares authorized; 135,000 shares issued and outstanding at June 30, 2020 and December 31, 2019)   | 137,142              | 137,581              |
| Common stock (par value \$0.01 per share; 310,000,000 shares authorized at June 30, 2020 and December 31, 2019; 229,872,925 shares issued at June 30, 2020 and December 31, 2019; 194,458,805 and 198,455,324 shares outstanding at June 30, 2020 and December 31, 2019, respectively) | 2,299                | 2,299                |
| Additional paid-in capital   | 3,755,474            | 3,766,716            |
| Treasury stock, at cost (35,414,120 shares at June 30, 2020 and 31,417,601 shares at December 31, 2019)  | (660,223)            | (583,408)            |
| Retained earnings  | 1,160,885            | 1,166,709            |
| Accumulated other comprehensive income, net of tax expense of \$33,847 at June 30, 2020 and \$15,361 at December 31, 2019  | 88,610               | 40,216               |
| <b>Total stockholders’ equity</b>  | <b>4,484,187</b>     | <b>4,530,113</b>     |
| <b>Total liabilities and stockholders’ equity</b>  | <b>\$ 30,839,893</b> | <b>\$ 30,586,497</b> |

See accompanying notes to consolidated financial statements.

**STERLING BANCORP AND SUBSIDIARIES**  
Consolidated Income Statements (Unaudited)  
(Dollars in thousands, except share and per share data)

|  | Three months ended |                  | Six months ended |                   |
|--|--------------------|------------------|------------------|-------------------|
|  | June 30,           |                  | June 30,         |                   |
|  | 2020               | 2019             | 2020             | 2019              |
| <b>Interest and dividend income:</b>   |                    |                  |                  |                   |
| Loans and loan fees  | \$ 219,904         | \$ 258,283       | \$ 455,343       | \$ 518,578        |
| Securities taxable   | 18,855             | 24,632           | 39,484           | 52,479            |
| Securities non-taxable   | 12,831             | 14,423           | 25,828           | 29,280            |
| Other earning assets   | 1,636              | 5,119            | 6,098            | 11,520            |
| <b>Total interest and dividend income</b>                                      | <b>253,226</b>     | <b>302,457</b>   | <b>526,753</b>   | <b>611,857</b>    |
| <b>Interest expense:</b>   |                    |                  |                  |                   |
| Deposits   | 28,110             | 48,129           | 73,891           | 94,124            |
| Borrowings   | 11,817             | 22,489           | 27,791           | 50,388            |
| <b>Total interest expense</b>  | <b>39,927</b>      | <b>70,618</b>    | <b>101,682</b>   | <b>144,512</b>    |
| <b>Net interest income</b>   | <b>213,299</b>     | <b>231,839</b>   | <b>425,071</b>   | <b>467,345</b>    |
| Provision for credit losses - loans  | 56,606             | 11,500           | 193,183          | 21,700            |
| Provision for credit losses - held to maturity securities                      | —                  | —                | 1,703            | —                 |
| <b>Net interest income after provision for credit losses</b>                   | <b>156,693</b>     | <b>220,339</b>   | <b>230,185</b>   | <b>445,645</b>    |
| <b>Non-interest income:</b>  |                    |                  |                  |                   |
| Deposit fees and service charges   | 5,345              | 7,098            | 11,968           | 13,310            |
| Accounts receivable management / factoring commissions and other fees          | 4,419              | 5,794            | 9,956            | 11,217            |
| Bank owned life insurance  | 4,950              | 4,192            | 9,967            | 7,833             |
| Loan commissions and fees  | 8,003              | 5,308            | 19,028           | 9,146             |
| Investment management fees   | 1,379              | 2,050            | 3,225            | 3,950             |
| Net gain (loss) on sale of securities  | 485                | (528)            | 8,896            | (13,712)          |
| Net gain on called securities  | —                  | —                | 4,880            | —                 |
| Gain on sale of residential mortgage loans                                     | —                  | —                | —                | 8,313             |
| Other  | 1,509              | 3,144            | 5,496            | 6,598             |
| <b>Total non-interest income</b>   | <b>26,090</b>      | <b>27,058</b>    | <b>73,416</b>    | <b>46,655</b>     |
| <b>Non-interest expense:</b>   |                    |                  |                  |                   |
| Compensation and benefits  | 54,668             | 54,473           | 109,544          | 110,463           |
| Stock-based compensation plans   | 5,913              | 4,605            | 11,919           | 9,728             |
| Occupancy and office operations  | 14,695             | 16,106           | 29,894           | 32,641            |
| Information technology   | 7,312              | 9,047            | 15,330           | 17,722            |
| Amortization of intangible assets  | 4,200              | 4,785            | 8,400            | 9,611             |
| FDIC insurance and regulatory assessments                                      | 3,638              | 2,994            | 6,844            | 6,332             |
| Other real estate owned expense, net   | 1,233              | 458              | 1,285            | 675               |
| Charge for asset write-downs, retention and severance                          | —                  | —                | —                | 3,344             |
| Impairment related to financial centers and real estate consolidation strategy | —                  | 14,398           | —                | 14,398            |
| Other  | 33,222             | 20,074           | 56,378           | 37,018            |
| <b>Total non-interest expense</b>  | <b>124,881</b>     | <b>126,940</b>   | <b>239,594</b>   | <b>241,932</b>    |
| <b>Income before income tax expense</b>  | <b>57,902</b>      | <b>120,457</b>   | <b>64,007</b>    | <b>250,368</b>    |
| Income tax expense (benefit)   | 7,110              | 23,997           | (932)            | 52,471            |
| <b>Net income</b>  | <b>50,792</b>      | <b>96,460</b>    | <b>64,939</b>    | <b>197,897</b>    |
| Preferred stock dividend   | 1,972              | 1,987            | 3,948            | 3,976             |
| <b>Net income available to common stockholders</b>                             | <b>\$ 48,820</b>   | <b>\$ 94,473</b> | <b>\$ 60,991</b> | <b>\$ 193,921</b> |
| <b>Weighted average common shares:</b>   |                    |                  |                  |                   |
| Basic  | 193,479,757        | 206,932,114      | 194,909,498      | 210,022,967       |

|                            |             |             |             |             |
|----------------------------|-------------|-------------|-------------|-------------|
| Diluted                    | 193,604,431 | 207,376,239 | 195,168,557 | 210,419,425 |
| Earnings per common share: |             |             |             |             |
| Basic                      | \$ 0.25     | \$ 0.46     | \$ 0.31     | \$ 0.92     |
| Diluted                    | 0.25        | 0.46        | 0.31        | 0.92        |

See accompanying notes to consolidated financial statements.

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

|  | Three months ended |            | Six months ended |            |
|--|--------------------|------------|------------------|------------|
|  | June 30,           |            | June 30,         |            |
|  | 2020               | 2019       | 2020             | 2019       |
| Net income   | \$ 50,792          | \$ 96,460  | \$ 64,939        | \$ 197,897 |
| Other comprehensive income, before tax:  |                    |            |                  |            |
| Change in unrealized holding gains on securities available for sale                    | 29,356             | 64,176     | 78,111           | 139,506    |
| Unrealized (loss) on transfer of securities held to maturity to available for sale     | —                  | —          | —                | (11,813)   |
| Reclassification adjustment for net realized (gains) losses included in net income     | (485)              | 528        | (8,896)          | 13,712     |
| Accretion of net unrealized loss on securities transferred to held to maturity         | 59                 | 122        | 156              | 2,539      |
| Change in the actuarial loss of defined benefit plan and post-retirement benefit plans | 76                 | 66         | (2,492)          | 2,949      |
| Total other comprehensive income, before tax   | 29,006             | 64,892     | 66,879           | 146,893    |
| Deferred tax (expense) related to other comprehensive income                           | (8,017)            | (17,936)   | (18,485)         | (40,602)   |
| Other comprehensive income, net of tax   | 20,989             | 46,956     | 48,394           | 106,291    |
| Comprehensive income   | \$ 71,781          | \$ 143,416 | \$ 113,333       | \$ 304,188 |

See accompanying notes to consolidated financial statements.



**STERLING BANCORP AND SUBSIDIARIES**  
Consolidated Statements of Changes in Stockholders' Equity (Unaudited)  
(Dollars in thousands, except share and per share data)

|   | Number of<br>common<br>shares | Preferred<br>stock | Common<br>stock | Additional<br>paid-in<br>capital | Treasury<br>stock | Retained<br>earnings | Accumulated<br>other<br>comprehensive<br>(loss) income | Total<br>stockholders'<br>equity |
|---|-------------------------------|--------------------|-----------------|----------------------------------|-------------------|----------------------|--|----------------------------------|
| Balance at January 1, 2019                            | 216,227,852                   | \$ 138,423         | \$ 2,299        | \$ 3,776,461                     | \$ (213,935)      | \$ 791,550           | \$ (65,945)  | \$ 4,428,853                     |
| Net income  | —                             | —                  | —               | —                                | —                 | 101,437              | —  | 101,437                          |
| Other comprehensive income                            | —                             | —                  | —               | —                                | —                 | —                    | 59,335   | 59,335                           |
| Stock options & other stock transactions, net         | 3,893                         | —                  | —               | —                                | 49                | 6                    | —  | 55                               |
| Restricted stock awards, net                          | 1,331,674                     | —                  | —               | (24,626)                         | 12,818            | 12,913               | —  | 1,105                            |
| Cash dividends declared (\$0.07 per common share)     | —                             | —                  | —               | —                                | —                 | (15,079)             | —  | (15,079)                         |
| Cash dividends declared (\$16.25 per preferred share) | —                             | (205)              | —               | —                                | —                 | (1,989)              | —  | (2,194)                          |
| Purchase of treasury stock                            | (8,002,595)                   | —                  | —               | —                                | (154,289)         | —                    | —  | (154,289)                        |
| Balance at March 31, 2019                             | 209,560,824                   | 138,218            | 2,299           | 3,751,835                        | (355,357)         | 888,838              | (6,610)  | 4,419,223                        |
| Net income  | —                             | —                  | —               | —                                | —                 | 96,460               | —  | 96,460                           |
| Other comprehensive income                            | —                             | —                  | —               | —                                | —                 | —                    | 46,956   | 46,956                           |
| Stock options & other stock transactions, net         | 168,169                       | —                  | —               | —                                | 1,410             | 424                  | —  | 1,834                            |
| Restricted stock awards, net                          | (39,697)                      | —                  | —               | 5,291                            | (887)             | —                    | —  | 4,404                            |
| Cash dividends declared (\$0.07 per common share)     | —                             | —                  | —               | —                                | —                 | (14,611)             | —  | (14,611)                         |
| Cash dividends declared (\$16.25 per preferred share) | —                             | (207)              | —               | —                                | —                 | (1,987)              | —  | (2,194)                          |
| Purchase of treasury stock                            | (4,502,053)                   | —                  | —               | —                                | (92,914)          | —                    | —  | (92,914)                         |
| Balance at June 30, 2019                              | 205,187,243                   | \$ 138,011         | \$ 2,299        | 3,757,126                        | \$ (447,748)      | \$ 969,124           | \$ 40,346  | \$ 4,459,158                     |

**STERLING BANCORP AND SUBSIDIARIES**  
Consolidated Statements of Changes in Stockholders' Equity (Unaudited)  
(Dollars in thousands, except share and per share data)

|   | Number of<br>common<br>shares | Preferred<br>stock | Common<br>stock | Additional<br>paid-in<br>capital | Treasury<br>stock | Retained<br>earnings | Accumulated<br>other<br>comprehensive<br>income | Total<br>stockholders'<br>equity |
|---|-------------------------------|--------------------|-----------------|----------------------------------|-------------------|----------------------|---|----------------------------------|
| Balance at January 1, 2020  | 198,455,324                   | \$ 137,581         | \$ 2,299        | \$ 3,766,716                     | \$ (583,408)      | \$ 1,166,709         | \$ 40,216                                       | \$ 4,530,113                     |
| Cumulative effect of change in accounting principle (see Note 1. "Basis of Financial Statement Presentation") | —                             | —                  | —               | —                                | —                 | (54,254)             | —   | (54,254)                         |
| Balance at January 1, 2020 (as adjusted for change in accounting principle)                                   | 198,455,324                   | 137,581            | 2,299           | 3,766,716                        | (583,408)         | 1,112,455            | 40,216  | 4,475,859                        |
| Net income  | —                             | —                  | —               | —                                | —                 | 14,147               | —   | 14,147                           |
| Other comprehensive income  | —                             | —                  | —               | —                                | —                 | —                    | 27,405  | 27,405                           |
| Stock options & other stock transactions, net   | 41,000                        | —                  | —               | —                                | 346               | 68                   | —   | 414                              |
| Restricted stock awards, net  | 865,091                       | —                  | —               | (17,208)                         | 4,025             | 14,776               | —   | 1,593                            |
| Cash dividends declared (\$0.07 per common share)   | —                             | —                  | —               | —                                | —                 | (13,768)             | —   | (13,768)                         |
| Cash dividends declared (\$16.25 per preferred share)   | —                             | (218)              | —               | —                                | —                 | (1,976)              | —   | (2,194)                          |
| Purchase of treasury stock  | (4,900,759)                   | —                  | —               | —                                | (81,032)          | —                    | —   | (81,032)                         |
| Balance at March 31, 2020   | 194,460,656                   | 137,363            | 2,299           | 3,749,508                        | (660,069)         | 1,125,702            | 67,621  | 4,422,424                        |
| Net income  | —                             | —                  | —               | —                                | —                 | 50,792               | —   | 50,792                           |
| Other comprehensive income  | —                             | —                  | —               | —                                | —                 | —                    | 20,989  | 20,989                           |
| Stock options & other stock transactions, net   | 10,000                        | —                  | —               | —                                | 95                | 6                    | —   | 101                              |
| Restricted stock awards, net  | (11,851)                      | —                  | —               | 5,966                            | (249)             | 5                    | —   | 5,722                            |
| Cash dividends declared (\$0.07 per common share)   | —                             | —                  | —               | —                                | —                 | (13,648)             | —   | (13,648)                         |
| Cash dividends declared (\$16.25 per preferred share)   | —                             | (221)              | —               | —                                | —                 | (1,972)              | —   | (2,193)                          |
| Balance at June 30, 2020  | 194,458,805                   | \$ 137,142         | \$ 2,299        | \$ 3,755,474                     | \$ (660,223)      | \$ 1,160,885         | \$ 88,610                                       | \$ 4,484,187                     |

See accompanying notes to consolidated financial statements.

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

|   | Six months ended |            |
|---|------------------|------------|
|   | June 30,         |            |
|   | 2020             | 2019       |
| Cash flows from operating activities:   |                  |            |
| Net income  | \$ 64,939        | \$ 197,897 |
| Adjustments to reconcile net income to net cash provided by operating activities:       |                  |            |
| Provisions for credit losses - loans  | 193,183          | 21,700     |
| Provision for credit losses - held to maturity securities                               | 1,703            | —          |
| Net loss (gain) from write-downs and sales of other real estate owned                   | 1,019            | (192)      |
| Net (gain) on extinguishment of Senior Notes  | —                | (46)       |
| Depreciation of premises and equipment  | 9,941            | 9,723      |
| Loss on extinguishment of FHLB borrowings   | 10,476           | —          |
| Impairment on fixed assets  | —                | 10,473     |
| Impairment of early termination of leases   | —                | 3,925      |
| Asset write-downs, retention and severance compensation and other restructuring charges | —                | 3,344      |
| Amortization of intangible assets   | 8,400            | 9,611      |
| Amortization of low income housing tax credits  | 16,388           | 7,883      |
| Net (gain) loss on sale of securities   | (8,896)          | 13,712     |
| (Gain) on security calls available for sale   | (4,897)          | —          |
| Loss on security calls held to maturity   | 17               | —          |
| Net (gain) on loans held for sale   | (2,881)          | (8,313)    |
| Net amortization of premiums on securities  | 15,801           | 18,194     |
| Amortization of premium on certificates of deposit                                      | (1,229)          | (2,061)    |
| Net accretion of purchase discount and amortization of net deferred loan costs          | (20,172)         | (48,725)   |
| Net accretion of debt issuance costs and amortization of premium on borrowings          | (446)            | (805)      |
| Restricted stock compensation expense   | 11,919           | 9,728      |
| Originations of loans held for sale   | (36,313)         | (4,500)    |
| Proceeds from sales of loans held for sale  | —                | 6,091      |
| Increase in cash surrender value of bank owned life insurance                           | (9,967)          | (7,833)    |
| Deferred income tax (benefit) expense   | (56,339)         | 21,634     |
| Other adjustments (principally net changes in other assets and other liabilities)       | (159,410)        | (48,238)   |
| Net cash provided by operating activities   | 33,236           | 213,202    |
| Cash flows from investing activities:   |                  |            |
| Purchases of securities:  |                  |            |
| Available for sale  | (285,798)        | (59,148)   |
| Held to maturity  | (1,355)          | (4,032)    |
| Proceeds from maturities and other principal payments on securities:                    |                  |            |
| Available for sale  | 241,438          | 178,821    |
| Held to maturity  | 40,364           | 63,423     |
| Proceeds from sales of securities available for sale                                    | 459,994          | 738,751    |
| Proceeds from calls of securities available for sale                                    | 138,872          | —          |
| Proceeds from calls of securities held to maturity                                      | 905              | —          |
| Portfolio loan originations, net  | (932,814)        | (518,656)  |
| Proceeds from sale of commercial loans  | 98,412           | —          |
| Proceeds from sale of residential mortgage loans  | —                | 1,409,334  |

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

|   | Six months ended |             |
|---|------------------|-------------|
|   | June 30,         |             |
|   | 2020             | 2019        |
| Redemptions of FHLB and FRB stock, net                                    | 58,139           | 49,130      |
| Proceeds from sales of other real estate owned                            | 3,237            | 8,595       |
| Purchases of premises and equipment                                       | (11,509)         | (10,992)    |
| Proceeds from bank owned life insurance                                   | 2,907            | 2,457       |
| Proceeds from sale of premises and equipment                              | 1,910            | 4,835       |
| Purchases of low income housing tax credits                               | (63,349)         | (32,649)    |
| Cash paid for acquisition, net  | —                | (515,692)   |
| Net cash (used in) provided by investing activities                       | (248,647)        | 1,314,177   |
| Cash flows from financing activities:                                     |                  |             |
| Net increase (decrease) in transaction, savings and money market deposits | 1,995,896        | (369,213)   |
| Net (decrease) increase in certificates of deposit                        | (812,704)        | 105,590     |
| Net (decrease) in short-term FHLB borrowings                              | (195,000)        | (147,000)   |
| Advances of term FHLB borrowings  | 375,000          | 1,325,000   |
| Repayments of term FHLB borrowings  | (1,450,000)      | (2,250,000) |
| Advances under the Paycheck Protection Program Liquidity Facility         | 568,350          | —           |
| Repayment of Senior Notes   | (173,373)        | (6,954)     |
| Net increase (decrease) in other borrowings                               | 3,770            | (437)       |
| Net increase in mortgage escrow funds                                     | 11,370           | 285         |
| Proceeds from stock option exercises                                      | 515              | 1,889       |
| Treasury shares repurchased   | (81,032)         | (247,203)   |
| Cash dividends paid - common stock  | (27,416)         | (29,690)    |
| Cash dividends paid - preferred stock                                     | (4,387)          | (4,388)     |
| Net cash provided by (used in) financing activities                       | 210,989          | (1,622,121) |
| Net (decrease) in cash and cash equivalents                               | (4,422)          | (94,742)    |
| Cash and cash equivalents at beginning of period                          | 329,151          | 438,110     |
| Cash and cash equivalents at end of period                                | \$ 324,729       | \$ 343,368  |
| Supplemental cash flow information:                                       |                  |             |
| Interest payments   | \$ 109,820       | \$ 144,243  |
| Income tax payments   | 14,017           | 16,118      |
| Real estate acquired in settlement of loans                               | 732              | 2,654       |
| Residential mortgage loans transferred from held for sale to portfolio    | —                | 127,833     |
| Loans transferred from held for investment to held for sale               | 95,179           | —           |
| Redemption of bank owned life insurance, pending settlement               | —                | 60,491      |
| Securities held to maturity transferred to available for sale             | —                | 708,627     |
| Operating cash flows from operating leases                                | 10,328           | 8,866       |
| Right-of-use assets obtained in exchange for lease liabilities            | —                | 125,394     |
| Acquisitions:   |                  |             |
| Non-cash assets acquired:   |                  |             |
| Total loans, net  | \$ —             | \$ 471,878  |
| Accrued interest receivable   | —                | 1,789       |
| Goodwill  | —                | 44,781      |
| Other assets  | —                | 545         |
| Total non-cash assets acquired  | —                | 518,993     |
| Liabilities assumed:  |                  |             |
| Other liabilities   | —                | 3,301       |
| Total liabilities assumed   | —                | 3,301       |

|                              |      |            |
|------------------------------|------|------------|
| Net non-cash assets acquired | —    | 515,692    |
| Total consideration paid     | \$ — | \$ 515,692 |

See accompanying notes to consolidated financial statements.

**STERLING BANCORP AND SUBSIDIARIES**  
Notes to Consolidated Financial Statements (Unaudited)  
(Dollars in thousands within tabular disclosure, except share and per share data)

**(1) Basis of Financial Statement Presentation and Summary of Significant Accounting Policies**

***(a) Nature of Operations***

Sterling Bancorp (the “Company,” “we,” “us” and “our” ) is a Delaware corporation, a bank holding company and a financial holding company headquartered in Montebello, New York that owns all of the outstanding shares of common stock of Sterling National Bank (the “Bank”), its principal subsidiary. The Bank is a full-service regional bank specializing in the delivery of services and solutions to business owners, their families and consumers within the communities it serves through teams of dedicated and experienced relationship managers.

***(b) Basis of Presentation***

The consolidated financial statements in this Quarterly Report on Form 10-Q include the accounts of the Company and all other entities in which the Company has a controlling financial interest. All significant intercompany balances and transactions have been eliminated in consolidation. The accounting and financial reporting policies we follow conform, in all material respects, to accounting principles generally accepted in the United States (“GAAP”) and to general practices within the banking industry, which include regulatory reporting instructions.

The consolidated financial statements in this Quarterly Report on Form 10-Q have not been audited by an independent registered public accounting firm, but, in the opinion of management, reflect all adjustments necessary for a fair presentation of our financial position and results of operations. All such adjustments were of a normal and recurring nature. The consolidated financial statements have been prepared in accordance with GAAP and with the instructions to Form 10-Q adopted by the Securities and Exchange Commission (the “SEC”). Accordingly, the financial statements do not include all of the information and footnotes required by GAAP for complete financial statements and should be read in conjunction with our consolidated financial statements, and notes thereto, for the year ended December 31, 2019, included in our Annual Report on Form 10-K, as filed with the SEC on February 28, 2020 (the “2019 Form 10-K”). Operating results for the interim periods disclosed herein are not necessarily indicative of the results that may be expected for a full year or any future period. Certain items in prior financial statements have been reclassified to conform to the current presentation. These reclassifications had no impact on previously reported net income.

***(c) Use of Estimates***

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income, expense and contingencies at the date of the financial statements. Actual results could differ significantly from these estimates, particularly the allowance for credit losses and the status of contingencies, and are subject to change.

***(d) Risks and Uncertainties - COVID-19***

The global pandemic resulting from the outbreak of the novel strain of coronavirus (“COVID-19”) has negatively impacted the global economy, disrupted global supply chains, lowered equity market valuations, created significant volatility and disruption in financial markets, and increased unemployment levels. In addition, the pandemic has resulted in temporary closures of many businesses and the institution of social distancing and sheltering in place requirements in many states and communities. In particular, COVID-19 has disrupted our normal course of providing services to our clients and adversely impacted our clients. We have approved CARES Act conforming loan payment deferrals on outstanding loans totaling \$1.7 billion at June 30, 2020. Continuation of economic and business disruption for an extended period could impair our client’s ability to fulfill their obligations to the Bank. In the six months ended June 30, 2020, we have successfully managed through the impacts of the pandemic to our colleagues and business operations. However, COVID-19 could negatively impact our business continuity plans in the future.

We are dependent on the willingness and ability of our colleagues and clients to conduct banking and other financial transactions. If the United States response to COVID-19 is unsuccessful, or results in additional impacts, it is reasonably possible that we could experience a material adverse effect on our business, financial condition, results of operations, and cash flows, including material changes to our significant estimates. While it is not possible to know the full extent that COVID-19, and resulting measures in response thereto will have on our operations, we are disclosing potentially material items of which we are aware as of the date of this report. In particular, we have continued to review our loan and securities portfolios to identify specific exposures and sectors that may be more at risk or impacted by COVID-19. The majority of our loan payment deferrals highlighted above consist mainly of commercial real estate loans and equipment finance loans to borrowers in the hotel and lodging, retail and transportation industry sectors, and residential mortgage loans. Please see Note 4. “Loans” for details on loan payment deferrals by asset class. If the COVID-19 impact continues to for an extended period, we may need to establish a valuation allowance for deferred tax assets.

***(e) Accounting Principle Change***

**STERLING BANCORP AND SUBSIDIARIES**

Notes to Consolidated Financial Statements (Unaudited)

(Dollars in thousands within tabular disclosure, except share and per share data)

Effective January 1, 2020, we adopted Accounting Standards Update (“ASU”) 2016-13 “ASU 2016-13 Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments”, which replaced the prior incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss (“CECL” or the “CECL Standard”). The measurement of expected credit losses under the CECL Standard is applicable to financial assets measured at amortized cost, including portfolio loans and investment securities classified as held-to-maturity (“HTM”). It also applies to off-balance sheet credit exposures including loan commitments, standby letters of credit, financial guarantees and other similar instruments. In addition, the CECL Standard changes the accounting for investment securities classified as available-for-sale (“AFS”), including a requirement that estimated credit losses on AFS securities be presented as an allowance rather than as a direct write-down of the carrying balance of securities which we do not intend to sell, or believe that it is more likely than not, that we will be required to sell.

We adopted the CECL Standard using the modified retrospective method for all financial assets measured at amortized cost and off-balance sheet credit exposures. As discussed further below, purchase credit deteriorated assets were measured on a prospective basis in accordance with the CECL Standard and all purchase credit impaired loans at December 31, 2019 were considered purchase credit deteriorated loans upon adoption. Results for reporting periods beginning after January 1, 2020 are presented under the CECL Standard while prior period amounts continue to be reported in accordance with previously applicable accounting guidance. The adoption of the CECL Standard resulted in the following adjustments to our financial statements:

|   | Change in consolidated<br>balance sheet | Tax effect | Change to retained<br>earnings from adoption of<br>new accounting principle |
|---|---|------------|---|
| Allowance for credit losses (“ACL”) - loans   | \$ 68,088                               | \$ 18,820  | \$ 49,268   |
| ACL - loans - (adjustment related to purchase credit impaired loan mark) <sup>1</sup> | 22,496                                  | —          | —   |
| Total ACL - loans   | 90,584                                  | 18,820     | 49,268  |
| ACL - HTM securities  | 796                                     | 220        | 576   |
| ACL - off balance sheet credit exposure (recorded in other liabilities)               | 6,095                                   | 1,685      | 4,410   |
| Total impact of CECL adoption   | \$ 97,475                               | \$ 20,725  | \$ 54,254   |

<sup>1</sup>This amount represents gross-up of the balance of the amortized cost of purchase credit impaired loans that were considered purchase credit deteriorated loans on adoption of the CECL Standard.

The table below presents additional details on the impact of the adoption of the CECL Standard on HTM securities, portfolio loans and off-balance sheet credit exposures as of January 1, 2020:

|  | As reported<br>under CECL | Prior to CECL<br>Standard<br>adoption | Impact of CECL<br>adoption |
|--|---------------------------|---------------------------------------|----------------------------|
| <b>Assets:</b>   |                           |                                       |                            |
| <b>ACL - HTM securities:</b>   |                           |                                       |                            |
| Corporate and other  | \$ 108                    | \$ —                                  | \$ 108                     |
| State and municipal  | 688                       | —                                     | 688                        |
| Total ACL - HTM securities   | 796                       | —                                     | 796                        |
| ACL - loans  | \$ 196,822                | \$ 106,238                            | \$ 90,584                  |
| <b>Liabilities:</b>  |                           |                                       |                            |
| ACL - off-balance sheet credit exposures (recorded in other liabilities) | \$ 6,749                  | \$ 654                                | \$ 6,095                   |

Under prior GAAP, our allowance for loan and lease losses (“ALLL”) was determined under the incurred loss model, using an average of actual losses incurred over the most recent three-year period and the application of qualitative factors to arrive at an allowance that represented our best estimate of probable credit losses inherent in our loan portfolio. Under the CECL Standard, our ACL is based on an

**STERLING BANCORP AND SUBSIDIARIES**

Notes to Consolidated Financial Statements (Unaudited)

(Dollars in thousands within tabular disclosure, except share and per share data)

estimate of all amounts that are not expected to be collected over the contractual life of the portfolio loans, which is comprised of quantitative and qualitative factors.

As of December 31, 2019, a significant portion of our loans were acquired in business combination transactions that were subject to purchase accounting adjustments, which incorporated life of loan losses estimates at the date of acquisition into the estimate of the fair value of the loan. To the extent the loan continued to perform as expected since the date of acquisition, we generally did not apply amounts from our allowance for loan losses methodology to such loans. At December 31, 2019, our allowance for loan losses of \$106.2 million was recorded as a valuation account against \$15.4 billion of our portfolio loans. Acquired loans of \$6.0 billion did not have an allowance for loan loss allocation as those loans had remaining purchase accounting adjustments. The composition of our portfolio loans at December 31, 2019 was the following:

|                                    | At December 31, 2019 |                     |                      | December 31, 2019 |
|------------------------------------|----------------------|---------------------|----------------------|-------------------|
|                                    | Originated           | Acquired            | Total                | ALLL              |
| Commercial and industrial          | \$ 6,982,226         | \$ 1,250,493        | \$ 8,232,719         | \$ 52,548         |
| Commercial mortgage <sup>(1)</sup> | 7,788,749            | 2,974,100           | 10,762,849           | 44,137            |
| Residential mortgage               | 541,681              | 1,668,431           | 2,210,112            | 7,598             |
| Consumer                           | 121,310              | 113,222             | 234,532              | 1,955             |
| <b>Total</b>                       | <b>\$ 15,433,966</b> | <b>\$ 6,006,246</b> | <b>\$ 21,440,212</b> | <b>\$ 106,238</b> |

(1) Commercial mortgage includes commercial real estate, multi-family and ADC loans.

The increase in the ACL - loans from the adoption of the CECL Standard included the following adjustments:

|                           | ALLL as of<br>December 31,<br>2019 | Adjustments recorded as of<br>January 1, 2020 |                  | ACL as of<br>January 1,<br>2020 |
|---------------------------|------------------------------------|---|------------------|---------------------------------|
|                           |                                    | CECL Day 1                                    | PCD gross-up     |                                 |
| Commercial and industrial | \$ 52,548                          | \$ 44,675                                     | \$ 6,624         | \$ 103,847                      |
| Commercial mortgage       | 44,137                             | 21,384  | 1,440            | 66,961                          |
| Residential mortgage      | 7,598                              | 942   | 13,162           | 21,702                          |
| Consumer                  | 1,955                              | 1,087   | 1,270            | 4,312                           |
| <b>Total</b>              | <b>\$ 106,238</b>                  | <b>\$ 68,088</b>                              | <b>\$ 22,496</b> | <b>\$ 196,822</b>               |

Loans designated as purchased credit impaired (“PCI”) loans and accounted for under Accounting Standards Codification (“ASC”) 310-30 were designated as purchased with credit deterioration (“PCD”) loans. In accordance with the CECL Standard, we did not reassess whether PCI loans met the criteria of PCD loans as of the date of adoption, and determined all PCI loans were PCD loans. On January 1, 2020, the amortized cost basis of PCD loans totaled \$116.3 million. We recorded an increase to the balance of PCD loans and an increase to the ACL - loans of \$22.5 million, which represented the expected credit losses for PCD loans. The remaining non-credit discount (based on the adjusted amortized cost basis) will be accreted into interest income at the effective interest rate as of January 1, 2020 over the remaining estimated life of the loans. Also, in accordance with the CECL Standard, we did not reassess whether modifications to individual acquired financial assets were troubled debt restructurings (“TDRs”) as of the date of adoption.

**Investment Securities:** Investment securities are classified as HTM and carried at amortized cost when management has the intent and ability to hold them to maturity. Investment securities not classified as HTM or trading are classified as AFS. Securities AFS are carried at fair value, with unrealized holding gains and losses reported in comprehensive income, net of tax.

Interest income includes amortization of purchase premiums or discounts. Premiums and discounts on securities are generally amortized using the level-yield method without estimating prepayments, except for mortgage-backed securities, where prepayment rates are estimated. Premiums on callable investment securities are amortized to their earliest call date. Gains and losses on sales of securities are recorded on the trade date and determined using the specific identification method.

An investment security is placed on non-accrual status when management concludes it will not receive all principal and interest in a timely fashion in accordance with the terms of the security. Interest accrued but not received for a security placed on non-accrual is reversed against interest income. At June 30, 2020 and December 31, 2019, there were no securities placed on non-accrual.



**STERLING BANCORP AND SUBSIDIARIES**

Notes to Consolidated Financial Statements (Unaudited)

(Dollars in thousands within tabular disclosure, except share and per share data)

ACL - HTM securities: HTM securities include residential mortgage-backed securities issued by government agencies, federal agency securities, corporate securities, state and municipal securities and other securities. We estimate expected credit losses on HTM securities individually using a discounted cash flow methodology. Our expected loss model estimates the probability of default and loss given default based on the security rating, historical loss rates by security ratings, whether the issuer continues to make timely principal and interest payments in accordance with the contractual terms of the security, and reasonable and supportable forecasts. For unrated state and municipal securities, we perform an internal credit evaluation and assign a rating to the security for ACL - HTM securities modeling purposes. The loss given default is estimated by security, and the aggregate amount results in the estimated ACL - HTM securities balance. Included in state and municipal securities at June 30, 2020 were non-rated securities of \$108.4 million, which consisted mainly of short-term general obligation securities and bond anticipation notes and tax anticipation notes issued by jurisdictions in New York state.

At June 30, 2020 and December 31, 2019, all of our residential mortgage-backed and federal agency securities were issued by U.S. government entities or agencies. These securities are either explicitly or implicitly guaranteed by the U.S. government, are highly rated by a nationally recognized statistical rating organization and have had no historical credit defaults. We expect these securities are fully collectible, as these securities are backed by the full faith and credit of, or directly guaranteed by, the U.S. Government. Accordingly, we established no ACL for such securities.

Accrued interest receivable on HTM investment securities totaled \$16.5 million at both June 30, 2020 and December 31, 2019, and is excluded from the estimate of ACL. Accrued interest receivable on HTM investment securities is included in accrued interest receivable on the consolidated balance sheets.

ACL - on investment securities classified as AFS: For AFS investment securities which are in an unrealized loss position, we first assess whether we intend to sell, or it is more likely than not that we will be required to sell, the security before recovery of the amortized cost basis. If either of the criteria is met, the amortized cost basis of the security is written down to fair value through income. For AFS investment securities that do not meet the aforementioned criteria, we evaluate whether the decline in fair value has resulted from an actual or estimated credit loss event or other factors. In making this assessment, we consider the extent to which fair value is less than amortized cost, changes to the rating of the security, and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss is likely, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of the cash flows expected to be collected is less than the amortized cost basis, an ACL is recorded for the estimated credit loss, limited by the amount that the fair value is less than the amortized cost basis. Any impairment that has not been recorded through an ACL is recognized in other comprehensive income.

Changes in the ACL are recorded as provision for (or reversal of) credit loss expense. Losses are charged against the allowance when we believe the uncollectibility of an AFS security has been confirmed or if either of the criteria regarding intent or requirement to sell is met.

Accrued interest receivable on AFS investment securities totaled \$12.1 million and \$12.8 million at June 30, 2020 and December 31, 2019, respectively, and is excluded from the estimate of credit losses. Accrued interest receivable on AFS investment securities is included in accrued interest receivable on the consolidated balance sheets.

Portfolio loans: Portfolio loans are loans we have the intent and ability to hold for the foreseeable future, or until maturity or payoff, and are reported at amortized cost. The amortized cost is the principal balance outstanding, net of purchase premiums and discounts, including purchase accounting adjustments from prior merger transactions, deferred loan fees and costs. Accrued interest receivable on portfolio loans totaled \$72.7 million and \$71.0 million at June 30, 2020 and December 31, 2019, respectively, and was reported in accrued interest receivable on the consolidated balance sheets. Interest income is accrued on the unpaid principal balance. For portfolio loans with a term of one year or more, loan origination fees, net of certain direct origination costs, are deferred and recognized in interest income using the level-yield method without anticipating prepayments.

Generally, interest income is discontinued on portfolio loans and loans are placed on non-accrual status at the earlier of: (i) when we determine the borrower may likely be unable to meet contractual principal or interest obligations; or (ii) when the loan is 90 days delinquent unless the loan is well secured and in process of collection. Consumer loans are generally charged-off no later than 120 days past due unless the loan is in the process of collection. For other portfolio loans, when we conclude the collateral and/or debt service capacity of the borrower are insufficient to repay the loan, we charge-off the amount that is deemed uncollectible. Past due status is based on the contractual terms of the loan.

**STERLING BANCORP AND SUBSIDIARIES**

## Notes to Consolidated Financial Statements (Unaudited)

(Dollars in thousands within tabular disclosure, except share and per share data)

All interest accrued but not received on loans placed on non-accrual is reversed against interest income. Interest received on such loans is generally accounted for under the cost-recovery method, until the loan qualifies to be returned to accrual status. Under the cost-recovery method, interest income is not recognized until the loan balances is reduced to zero. We may elect to account for interest receipts on non-accrual loans on a cash-basis when we have determined we are in a well-secured position. Under the cash basis method, interest income is recorded when cash payments are received. Loans are returned to accrual status when all principal and interest amounts contractually due are brought current and future payments are reasonably assured.

PCD Loans: We have acquired loans through direct purchase and, more often, in merger transactions, some of which have experienced more than an insignificant credit deterioration since origination. Criteria we consider to determine whether a loan should be designated PCD includes, but is not limited to, the following: (i) loans delinquent over 60 days as of the date of acquisition; (ii) loans downgraded and rated special mention or worse as of the date of acquisition; (iii) loans on non-accrual; and (iv) loans deemed collateral dependent as of the date of acquisition. PCD loans are recorded at the purchase price paid. An ACL is determined using the same methodology as for other portfolio loans and the sum of the purchase price and ACL represents the initial amortized cost basis of the loan. The difference between the initial amortized cost basis and the par value of the loan represents either a non-credit discount or premium, which is amortized into interest income over the life of the loan. Subsequent changes to the ACL are recorded through provision expense. The only loans classified as PCD as of June 30, 2020 are loans that were formerly classified as PCI loans under the incurred loss model at adoption of the CECL Standard.

ACL - Loans: The ACL - loans is a valuation account that is deducted from the amortized cost basis of portfolio loans to present the net amount expected to be collected on portfolio loans over their contractual life. Loans are charged-off against the allowance when we believe the uncollectibility of a loan balance has been confirmed, and the expected recoveries do not exceed the aggregate of amounts previously charged-off or expected to be charged-off.

We estimate the balance of the ACL - loans using relevant available information from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. The methodologies for estimating the ACL - loans apply historical loss information, adjusted for current loan-specific risk characteristics such as differences in underwriting standards, portfolio composition, delinquency levels, loan terms, changes in environmental conditions such as changes in GDP, unemployment rates, credit spreads, property values, and other relevant factors, that are reasonable and supportable, to the identified financial assets for which the historical loss experience was observed. Our methodologies revert back to historical loss information at the individual macro variable level, which begins in two to three years and converges to its long-run equilibrium, when we can no longer develop reasonable and supportable forecasts.

The ACL - loans is measured on a collective (pool) basis when similar risk characteristics exist. We measure our warehouse lending portfolio and certain consumer loans at the loan level. Generally, for all other loan types, the estimated expected credit loss is also calculated at the loan level and pool assignments are only utilized for aggregating the allowance estimates of similar loan types for financial statement disclosure purposes. We have identified the following portfolio segments and estimate our ACL - loans using the following methods:

| Portfolio segment                     | ACL         |  | Portfolio composition  |
|---------------------------------------|-------------|--|--|
|                                       | Methodology | Risk characteristics   |  |
| Traditional Commercial and Industrial | Loss rate   | Actual cash flow varies from amounts estimated, changes in collateral value, business not successful   | Various types of secured and unsecured traditional C&I loans to small and medium-sized businesses in our market area, including loans collateralized by assets, such as accounts receivable, inventory, marketable securities, other liquid collateral, equipment and other business assets. |
| Asset-based lending ("ABL")           | Loss rate   | Actual cash flow varies from amounts estimated, borrower unable to collect accounts receivable or convert inventory, uncertain value of collateral | Loans to mid-size businesses on a national basis. ABL loans are secured with a blanket lien on all business assets and will include direct control and supervision of accounts receivable, inventory, machinery and equipment and real estate collateral.                                    |

**STERLING BANCORP AND SUBSIDIARIES**

Notes to Consolidated Financial Statements (Unaudited)

(Dollars in thousands within tabular disclosure, except share and per share data)

| Portfolio segment                                    | ACL  |  | Portfolio composition  |
|--|--|--|--|
|  | Methodology  | Risk characteristics   |  |
| Payroll finance                                      | Loss rate  | Inability to collect on accounts receivable, delays in accounts receivable turnover                              | Financing and business process outsourcing, including full back-office, technology and tax accounting services, to independently-owned temporary staffing companies nationwide. Loans typically are structured as an advance used by our clients to fund their employee payroll and are outstanding on average for 40 to 45 days.  |
| Warehouse lending                                    | No historical losses, qualitative overlay                      | Inability to sell underlying mortgage loan collateral into the secondary market                                  | Residential mortgage warehouse funding facilities to non-bank mortgage companies. These loans consist of a line of credit used as temporary financing during the period between the closing of a mortgage loan until its sale into the secondary market, which on average occurs 20 days of the original loan closing.   |
| Factored receivables                                 | Loss rate  | Inability to collect on accounts receivable, delays in accounts receivable turnover                              | The purchase of a client's accounts receivable is traditionally known as "factoring" and results in payment by the client of a factoring fee, which is generally a percentage of the factored receivables or sales volume, which is designed to compensate the Bank for the bookkeeping and collection services provided and, if applicable, its credit review of the client's customer and assumption of customer credit risk.  |
| Equipment financing                                  | Loss rate  | Actual cash flow varies from amounts estimated, changes in collateral value                                      | Equipment financing loans are offered through direct lending programs, third-party sources and vendor programs nationally. Our equipment finance lending mainly includes full payout term loans and secured loans for various types of business equipment.   |
| Public sector finance                                | DCF  | Municipal tax / revenue receipts insufficient to service debt; loss of access to capital markets                 | Loans to state, municipal and local government entities nationally. Loans are either secured by equipment, or are obligations that are backed by the ability to levy taxes, either generally or associated with a specific project.  |
| Commercial real estate/ multi-family ("CRE")         | PD/LGD for non-owner occupied and loss rate for owner occupied | Actual cash flow varies from amounts estimated, changes in collateral value                                      | CRE loans secured mainly by first liens on properties, including retail properties, office buildings, nursing homes, hotels, motels or restaurants, warehouses, schools and industrial complexes. To a lesser extent, we originate CRE loans for recreation, medical use, land, gas stations, not for profit and other categories. These loans are generally secured by properties located in our primary market area.   |
| Acquisition, development and construction            | PD/LGD   | Construction costs are greater than anticipated, changes in estimated collateral value, project completion       | Construction loans are made in accordance with a schedule reflecting the cost of construction. Repayment of construction loans on residential subdivisions is normally expected from the sale of units to individual purchasers, except in cases of owner occupied construction loans. In the case of income-producing property, repayment is usually expected from permanent financing upon completion of construction. We provide permanent mortgage financing on most of our construction loans on income-producing property. |
| Residential mortgage and home equity lines of credit | PD/LGD   | Product type, conforming vs. non-conforming, interest only, converted interest only, amortizing, FICO score, LTV | Residential mortgage conforming and non-conforming, fixed-rate and adjustable rate mortgage ("ARM") loans with maturities up to 30 years. Also includes home equity lines of credit.   |
| Other consumer loans                                 | 8 quarter historical loss                                      | FICO, LTV, product type  | Other consumer loans consist of loans for personal use.  |

Under the loss rate method, expected credit losses are estimated using a loss rate that is multiplied by the amortized cost of the asset at the balance sheet date. For each loan segment identified above, we apply an expected historical loss trend based on third-party loss estimates, correlate them to observed economic metrics and reasonable and supportable forecasts of economic conditions and overlay qualitative factors as determined by management.

Under the discounted cash flow method, expected credit losses are determined by comparing the amortized cost of the asset at the balance sheet date to the present value of estimated future principal and interest payments expected to be collected over the remaining

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life of the asset. Our loss model generates cash flow projections at the loan level based on reasonable and supportable projections, from which we estimate payment collections adjusted for curtailments, recovery time, probability of default and loss given default.

Under the probability of default and loss given default method, expected credit losses are calculated by multiplying the probability that the asset will default within a given time frame (“PD”) by the percentage of the asset that is not expected to be collected due to default (“LGD”), and multiplying this factor by the amortized cost of the asset at the balance sheet date. The PD and LGD are calculated based on third party historical information of loan performance, real estate prices and other factors, adjusted for current conditions and reasonable and supportable forecasts.

Qualitative loss factors are based on our judgement of company, market, industry or business specific data, loan trends, changes in portfolio segment composition, delinquency and loan rating.

When a foreclosure is deemed probable, we estimate the fair value of the collateral at the reporting date to record the net carrying amount of the asset and determine the ACL. When repayment is dependent upon the sale of the collateral, the fair value of the collateral is adjusted for estimated costs to sell. If repayment depends on the operation, rather than the sale, of the collateral, an estimate for cost to sell is not included in the fair value of the collateral.

Determining the Contractual Term: Expected credit losses are estimated over the contractual term of the loans, adjusted for expected prepayment rates when appropriate. The contractual term excludes expected extensions, renewals, and modifications unless either of the following applies: we have a reasonable expectation at the reporting date that a TDR will be executed with an individual borrower, or the extension or renewal options are included in the original or modified contract at the reporting date and are not unconditionally cancellable by us.

TDRs: A loan for which the terms have been modified resulting in a concession, and for which the borrower is experiencing financial difficulties, is considered to be a TDR. The ACL on a TDR is measured using the same method as all other portfolio loans, except when the value of a concession cannot be measured using a method other than the discounted cash flow method. When the value of a concession is measured using the discounted cash flow method, the ACL is determined by discounting the expected future cash flows at the original interest rate of the loan.

ACL on Off-Balance Sheet Credit Exposures: We estimate expected credit losses over the contractual period in which we are exposed to credit risk via a contractual obligation, unless that obligation is unconditionally cancellable by us. The ACL on off-balance sheet credit exposures is adjusted as a provision for credit loss expense. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated life. Generally, expected credit losses on commitments is based on historical losses on similar portfolio segments, economic conditions, and qualitative factors.

Our off-balance sheet credit exposures include mainly loan origination commitments on construction loans, unused committed lines on traditional commercial and industrial loans, asset-based lending loans, equipment finance loans, warehouse lending loans, and standby and performance-based letters of credit. See Note 15 “Commitments and Contingencies” for additional information.

Macroeconomic Assumptions: We rely on economic models and forecast assumptions developed by Moody’s Analytics, Inc. (“Moody’s”), our principal CECL vendor, in measuring our estimate of the ACL. The key forecast assumptions that drive the economic models are presented for approval to our CECL committee, which is comprised of representatives from finance, credit and risk and then incorporated into the expected loss models. The macroeconomic model scenarios are updated on a quarterly basis.

**(2) Acquisitions****Equipment finance loan and lease portfolio and origination platform acquired from Santander Bank (“Santander”)**

On November 29, 2019, the Bank acquired an equipment finance loan and lease portfolio consisting of equipment finance loans, sales-type leases and operating leases from Santander (the “Santander Portfolio Acquisition”). In addition, the Bank obtained relationship management and business development personnel who will continue to manage the acquired loan and lease portfolio and originate new loans and leases. The total consideration paid in cash at closing was \$846.1 million. We acquired \$764.0 million of equipment finance loans and leases (classified as portfolio loans on the consolidated balance sheet), and \$74.8 million of operating leases (classified as other assets on the consolidated balance sheet). The fair value of these loans and leases was \$820.1 million at the time of acquisition. The Bank paid a premium of 0.75% on the unpaid principal balance of the loans or \$6.3 million. The transaction was accounted for as a business combination. We recorded a \$5.1 million restructuring charge consisting mainly of severance, retention, systems integration expense and facilities consolidation, which is included in charge for asset write-downs, retention and severance on the consolidated income statement. The acquired loans and origination platform have been fully integrated into our equipment finance business.

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**Commercial loan portfolio and origination platform acquired from Woodforest National Bank (“Woodforest”)**

On February 28, 2019, the Bank acquired a commercial loan portfolio consisting of equipment finance loans and leases and asset-based lending loans from Woodforest (the “Woodforest Acquisition”). In addition, the Bank obtained sales and relationship management and business development personnel based in Novi, Michigan, who will continue to originate new loans and leases. The total consideration paid in cash at closing was \$515.7 million. We acquired \$166.1 million of equipment finance loans, and \$331.8 million of asset-based lending loans, which are mainly variable rate loans. The fair value of these loans and leases was \$471.9 million at the time of acquisition. The Bank paid a premium of 3.75% on the unpaid principal balance of the loans or \$18.7 million. The transaction was accounted for as a business combination. We recorded a \$3.3 million restructuring charge consisting mainly of severance, retention, systems integration expense and facilities consolidation, which is included in charge for asset write-downs, retention and severance on the consolidated income statements. The acquired loans and origination platform have been fully integrated into our asset-based lending and equipment finance business lines.

**(3) Securities**

The following table summarizes the amortized cost, fair value, and ACL related to HTM securities, the amortized cost and fair value related to AFS securities and the corresponding amounts of gross unrealized gains and losses recognized in accumulated other comprehensive income and gross unrecognized gains and losses at June 30, 2020. The terms “MBS” refers to mortgage-backed securities and the term “CMOs” refers to collateralized mortgage obligations. Both of these terms are further defined in Note 16. “Fair Value Measurements”:

|                               | June 30, 2020       |                        |                         |                     |                     |                          |                           |                     |                             |
|-------------------------------|---------------------|------------------------|-------------------------|---------------------|---------------------|--------------------------|---------------------------|---------------------|-----------------------------|
|                               | Available for Sale  |                        |                         |                     | Held to Maturity    |                          |                           |                     |                             |
|                               | Amortized cost      | Gross unrealized gains | Gross unrealized losses | Fair value          | Amortized cost      | Gross unrecognized gains | Gross unrecognized losses | Fair value          | Allowance for credit losses |
| Residential MBS:              |                     |                        |                         |                     |                     |                          |                           |                     |                             |
| Agency-backed                 | \$ 1,086,303        | \$ 55,323              | \$ (23)                 | \$ 1,141,603        | \$ 144,861          | \$ 6,079                 | \$ —                      | \$ 150,940          | \$ —                        |
| CMOs/Other MBS                | 439,718             | 24,843                 | —                       | 464,561             | —                   | —                        | —                         | —                   | —                           |
| <b>Total residential MBS</b>  | <b>1,526,021</b>    | <b>80,166</b>          | <b>(23)</b>             | <b>1,606,164</b>    | <b>144,861</b>      | <b>6,079</b>             | <b>—</b>                  | <b>150,940</b>      | <b>—</b>                    |
| Other securities:             |                     |                        |                         |                     |                     |                          |                           |                     |                             |
| Federal agencies              | 140,072             | 6,845                  | —                       | 146,917             | 59,600              | 1,400                    | —                         | 61,000              | —                           |
| Corporate                     | 451,406             | 20,218                 | (2,230)                 | 469,394             | 19,878              | 111                      | (48)                      | 19,941              | 70                          |
| State and municipal           | 381,318             | 17,109                 | (278)                   | 398,149             | 1,690,365           | 100,177                  | (721)                     | 1,789,821           | 2,384                       |
| Other                         | —                   | —                      | —                       | —                   | 12,750              | —                        | (119)                     | 12,631              | 45                          |
| <b>Total other securities</b> | <b>972,796</b>      | <b>44,172</b>          | <b>(2,508)</b>          | <b>1,014,460</b>    | <b>1,782,593</b>    | <b>101,688</b>           | <b>(888)</b>              | <b>1,883,393</b>    | <b>2,499</b>                |
| <b>Total securities</b>       | <b>\$ 2,498,817</b> | <b>\$ 124,338</b>      | <b>\$ (2,531)</b>       | <b>\$ 2,620,624</b> | <b>\$ 1,927,454</b> | <b>\$ 107,767</b>        | <b>\$ (888)</b>           | <b>\$ 2,034,333</b> | <b>\$ 2,499</b>             |

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A summary of amortized cost and estimated fair value of securities as of December 31, 2019 is presented below:

|                               | December 31, 2019   |                        |                         |                     |                     |                          |                           |                     |
|-------------------------------|---------------------|------------------------|-------------------------|---------------------|---------------------|--------------------------|---------------------------|---------------------|
|                               | Available for Sale  |                        |                         |                     | Held to Maturity    |                          |                           |                     |
|                               | Amortized cost      | Gross unrealized gains | Gross unrealized losses | Fair value          | Amortized cost      | Gross unrecognized gains | Gross unrecognized losses | Fair value          |
| <b>Residential MBS:</b>       |                     |                        |                         |                     |                     |                          |                           |                     |
| Agency-backed                 | \$ 1,595,766        | \$ 20,385              | \$ (1,032)              | \$ 1,615,119        | \$ 168,743          | \$ 1,827                 | \$ (75)                   | \$ 170,495          |
| CMOs/Other MBS                | 508,217             | 4,104                  | (44)                    | 512,277             | —                   | —                        | —                         | —                   |
| <b>Total residential MBS</b>  | <b>2,103,983</b>    | <b>24,489</b>          | <b>(1,076)</b>          | <b>2,127,396</b>    | <b>168,743</b>      | <b>1,827</b>             | <b>(75)</b>               | <b>170,495</b>      |
| <b>Other securities:</b>      |                     |                        |                         |                     |                     |                          |                           |                     |
| Federal agencies              | 196,809             | 4,582                  | (253)                   | 201,138             | 59,475              | 822                      | —                         | 60,297              |
| Corporate                     | 307,050             | 13,917                 | (45)                    | 320,922             | 19,904              | 415                      | —                         | 20,319              |
| State and municipal           | 435,213             | 11,321                 | (342)                   | 446,192             | 1,718,789           | 70,530                   | (134)                     | 1,789,185           |
| Other                         | —                   | —                      | —                       | —                   | 12,750              | 147                      | (2)                       | 12,895              |
| <b>Total other securities</b> | <b>939,072</b>      | <b>29,820</b>          | <b>(640)</b>            | <b>968,252</b>      | <b>1,810,918</b>    | <b>71,914</b>            | <b>(136)</b>              | <b>1,882,696</b>    |
| <b>Total securities</b>       | <b>\$ 3,043,055</b> | <b>\$ 54,309</b>       | <b>\$ (1,716)</b>       | <b>\$ 3,095,648</b> | <b>\$ 1,979,661</b> | <b>\$ 73,741</b>         | <b>\$ (211)</b>           | <b>\$ 2,053,191</b> |

The amortized cost and estimated fair value of securities at June 30, 2020 are presented below by contractual maturity. Actual maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations. Residential MBS are shown separately since they are not due at a single maturity date.

|   | June 30, 2020       |                     |                     |                     |
|---|---------------------|---------------------|---------------------|---------------------|
|   | Available for sale  |                     | Held to maturity    |                     |
|   | Amortized cost      | Fair value          | Amortized cost      | Fair value          |
| <b>Remaining period to contractual maturity:</b>    |                     |                     |                     |                     |
| One year or less                                    | \$ 2,100            | \$ 2,104            | \$ 47,649           | \$ 48,022           |
| One to five years                                   | 181,136             | 191,001             | 75,121              | 77,499              |
| Five to ten years                                   | 495,508             | 513,517             | 360,210             | 383,498             |
| Greater than ten years                              | 294,052             | 307,838             | 1,299,613           | 1,374,374           |
| <b>Total securities with a stated maturity date</b> | <b>972,796</b>      | <b>1,014,460</b>    | <b>1,782,593</b>    | <b>1,883,393</b>    |
| <b>Residential MBS</b>                              | <b>1,526,021</b>    | <b>1,606,164</b>    | <b>144,861</b>      | <b>150,940</b>      |
| <b>Total securities</b>                             | <b>\$ 2,498,817</b> | <b>\$ 2,620,624</b> | <b>\$ 1,927,454</b> | <b>\$ 2,034,333</b> |

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Sales and calls of securities for the periods indicated below were as follows:

|   | For the three months ended |       | For the six months ended |            |
|---|----------------------------|-------|--------------------------|------------|
|   | June 30,                   |       | June 30,                 |            |
|   | 2020                       | 2019  | 2020                     | 2019       |
| <b>Available for sale:</b>                                    |                            |       |                          |            |
| Proceeds from sales   | \$ 52,470                  | \$ —  | \$ 459,994               | \$ 738,751 |
| Gross realized gains  | 485                        | —     | 8,964                    | 4,355      |
| Gross realized losses   | —                          | (528) | (68)                     | (18,067)   |
| Income tax expense (benefit) on realized net gains / (losses) | 61                         | (111) | 112                      | (2,880)    |
| Proceeds from calls   | \$ —                       | \$ —  | \$ 139,777               | \$ —       |
| Gross realized gains  | —                          | —     | 4,909                    | —          |
| Gross realized (losses)                                       | —                          | —     | (29)                     | —          |
| Income tax expense on realized net gains                      | —                          | —     | 610                      | —          |

We adopted ASU 2017-12, “*Derivatives and Hedging (Topic 815) - Targeted Improvements to Accounting for Hedging Activities*,” as of January 1, 2019, which allowed us to reclassify a debt security from HTM to AFS if the debt security is eligible to be hedged under the last-of-layer method in accordance with ASU 2017-12. Generally, this included debt securities that are pre-payable, including MBS, and debt securities that are callable by the issuer, which are applicable to many of our state and municipal debt securities. We transferred HTM securities with a book value of \$720.4 million and a fair value of \$708.6 million at December 31, 2018 to AFS effective January 1, 2019. In the first quarter of 2019, we sold securities with a book value of \$751.9 million to raise liquidity for the Woodforest Acquisition, and to reduce lower yielding securities as a percentage of total assets.

At June 30, 2020 and December 31, 2019, there were no holdings of securities of any one issuer in an amount greater than 10% of stockholders’ equity, other than the U.S. federal government and its agencies.

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The following table summarizes AFS securities with unrealized losses, in an unrealized loss position for which an ACL has not been recorded at June 30, 2020 and December 31, 2019 aggregated by major security type and length of time in a continuous unrealized loss position:

|                          | Continuous unrealized loss position |                   |                     |                   |                   |                   |
|--------------------------|-------------------------------------|-------------------|---------------------|-------------------|-------------------|-------------------|
|                          | Less than 12 months                 |                   | 12 months or longer |                   | Total             |                   |
|                          | Fair value                          | Unrealized losses | Fair value          | Unrealized losses | Fair value        | Unrealized losses |
| <b>AFS</b>               |                                     |                   |                     |                   |                   |                   |
| <b>June 30, 2020</b>     |                                     |                   |                     |                   |                   |                   |
| Residential MBS:         |                                     |                   |                     |                   |                   |                   |
| Agency-backed            | \$ 3,148                            | \$ (2)            | \$ 2,028            | \$ (21)           | \$ 5,176          | \$ (23)           |
| Other securities:        |                                     |                   |                     |                   |                   |                   |
| Corporate                | 135,398                             | (2,188)           | 1,990               | (42)              | 137,388           | (2,230)           |
| State and municipal      | 5,584                               | (48)              | 14,492              | (230)             | 20,076            | (278)             |
| Total other securities   | 140,982                             | (2,236)           | 16,482              | (272)             | 157,464           | (2,508)           |
| Total securities         | <u>\$ 144,130</u>                   | <u>\$ (2,238)</u> | <u>\$ 18,510</u>    | <u>\$ (293)</u>   | <u>\$ 162,640</u> | <u>\$ (2,531)</u> |
| <b>December 31, 2019</b> |                                     |                   |                     |                   |                   |                   |
| Residential MBS:         |                                     |                   |                     |                   |                   |                   |
| Agency-backed            | \$ 98,350                           | \$ (317)          | \$ 108,052          | \$ (715)          | \$ 206,402        | \$ (1,032)        |
| CMOs/Other MBS           | —                                   | —                 | 5,916               | (44)              | 5,916             | (44)              |
| Total residential MBS    | 98,350                              | (317)             | 113,968             | (759)             | 212,318           | (1,076)           |
| Other securities:        |                                     |                   |                     |                   |                   |                   |
| Federal agencies         | 39,573                              | (253)             | —                   | —                 | 39,573            | (253)             |
| Corporate                | —                                   | —                 | 12,006              | (45)              | 12,006            | (45)              |
| State and municipal      | 12,795                              | (94)              | 14,651              | (248)             | 27,446            | (342)             |
| Total other securities   | 52,368                              | (347)             | 26,657              | (293)             | 79,025            | (640)             |
| Total securities         | <u>\$ 150,718</u>                   | <u>\$ (664)</u>   | <u>\$ 140,625</u>   | <u>\$ (1,052)</u> | <u>\$ 291,343</u> | <u>\$ (1,716)</u> |

The adoption of CECL did not have an impact on our accounting for AFS securities. We regularly review AFS securities for impairment resulting from credit losses using both qualitative and quantitative criteria based on the composition of the portfolio at each reporting period. Unrealized losses on corporate and state and municipal securities have not been recognized into income because the issuers are of high credit quality, and we do not intend to sell and it is likely that we will not be required to sell the securities prior to their anticipated recovery. The decline in fair value is largely due to changes in interest rates and other market conditions. The issuers continue to make timely principal and interest payments on the securities. The fair value is expected to recover as the securities approach maturity.

At June 30, 2020, a total of 40 AFS securities were in a continuous unrealized loss position for less than 12 months and 76 AFS securities were in a continuous unrealized loss position for 12 months or longer.



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The following table summarizes securities HTM with unrecognized losses, segregated by the length of time in a continuous unrecognized loss position for the periods presented below:

|                          | Continuous unrecognized loss position |                     |                     |                     |                  |                     |
|--------------------------|---------------------------------------|---------------------|---------------------|---------------------|------------------|---------------------|
|                          | Less than 12 months                   |                     | 12 months or longer |                     | Total            |                     |
|                          | Fair value                            | Unrecognized losses | Fair value          | Unrecognized losses | Fair value       | Unrecognized losses |
| <b>HTM</b>               |                                       |                     |                     |                     |                  |                     |
| <b>June 30, 2020</b>     |                                       |                     |                     |                     |                  |                     |
| Other securities:        |                                       |                     |                     |                     |                  |                     |
| Corporate                | \$ 9,952                              | \$ (48)             | \$ —                | \$ —                | \$ 9,952         | \$ (48)             |
| State and municipal      | 25,681                                | (618)               | 7,159               | (103)               | 32,840           | (721)               |
| Other                    | 7,631                                 | (119)               | —                   | —                   | 7,631            | (119)               |
| Total securities         | <u>\$ 43,264</u>                      | <u>\$ (785)</u>     | <u>\$ 7,159</u>     | <u>\$ (103)</u>     | <u>\$ 50,423</u> | <u>\$ (888)</u>     |
| <b>December 31, 2019</b> |                                       |                     |                     |                     |                  |                     |
| Residential MBS:         |                                       |                     |                     |                     |                  |                     |
| Agency-backed            | \$ 39,732                             | \$ (69)             | \$ 1,598            | \$ (6)              | \$ 41,330        | \$ (75)             |
| Other securities:        |                                       |                     |                     |                     |                  |                     |
| State and municipal      | 177                                   | (2)                 | 8,258               | (132)               | 8,435            | (134)               |
| Other                    | 9,998                                 | (2)                 | —                   | —                   | 9,998            | (2)                 |
| Total other securities   | <u>10,175</u>                         | <u>(4)</u>          | <u>8,258</u>        | <u>(132)</u>        | <u>18,433</u>    | <u>(136)</u>        |
| Total securities         | <u>\$ 49,907</u>                      | <u>\$ (73)</u>      | <u>\$ 9,856</u>     | <u>\$ (138)</u>     | <u>\$ 59,763</u> | <u>\$ (211)</u>     |

The following table presents the activity in the ACL - HTM securities by type of security for the six month period ended June 30, 2020:

|  | Type of security    |                     |
|--|---------------------|---------------------|
|  | Corporate and Other | State and municipal |
| <b>ACL - HTM:</b>  |                     |                     |
| Balance at December 31, 2019   | \$ —                | \$ —                |
| Impact of adoption on January 1, 2020  | 108                 | 688                 |
| Provision for credit loss expense recorded in the six months ended June 30, 2020 | 7                   | 1,696               |
| Total ACL - HTM at June 30, 2020   | <u>\$ 115</u>       | <u>\$ 2,384</u>     |

The ACL - HTM securities was estimated using a discounted cash flow approach. We discounted the expected cash flows using the effective interest rate inherent in the security. For floating rate securities, we projected interest rates using forward interest rate curves. We review the term structures for probability of default, probability of prepayment and loss given default. We estimate a reasonable and supportable term of three years, which was supported by our back testing process.

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**Credit Quality Indicators**

We monitor the credit quality of HTM investment securities through the use of credit ratings, internal reviews and analysis of financial information and other data, and external reviews from a third-party vendor. We monitor credit quality indicators at least quarterly, and all credit ratings were updated and reviewed as of June 30, 2020. At June 30, 2020, a total of seven HTM securities were in a continuous unrealized loss position for less than 12 months and 41 HTM securities were in a continuous unrealized loss position for 12 months or longer. The following table summarizes the amortized cost of HTM securities at June 30, 2020 aggregated by credit quality indicator:

| Credit Rating: | Corporate and other | State and municipal |
|----------------|---------------------|---------------------|
| AAA            | \$ —                | \$ 754,049          |
| AA             | 12,750              | 711,365             |
| A              | —                   | 116,594             |
| Non-rated      | 19,878              | 108,357             |
| <b>Total</b>   | <b>\$ 32,628</b>    | <b>\$ 1,690,365</b> |

The majority of state and municipal securities had a rating of A or greater at June 30, 2020. State and municipal securities consist mainly of securities issued by jurisdictions located in the state of New York and securities issued by other states. The non-rated state and municipal securities consist of general obligation securities and short-term bond anticipation notes and tax anticipation notes issued by municipalities in the state of New York.

A security is considered to be delinquent once it is 30 days past due under the terms of the agreement. There were no past due securities and there were no securities on non-accrual at June 30, 2020.

Securities pledged for borrowings at the FHLB and other institutions, and securities pledged for municipal deposits and other purposes, were as follows for the periods presented below:

|  | June 30,<br>2020    | December 31,<br>2019 |
|--|---------------------|----------------------|
| AFS securities pledged for borrowings, at fair value             | \$ 26,448           | \$ 22,678            |
| AFS securities pledged for municipal deposits, at fair value     | 656,134             | 866,020              |
| HTM securities pledged for borrowings, at amortized cost         | —                   | 483                  |
| HTM securities pledged for municipal deposits, at amortized cost | 1,062,061           | 1,432,909            |
| <b>Total securities pledged</b>                                  | <b>\$ 1,744,643</b> | <b>\$ 2,322,090</b>  |

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**(4) Portfolio Loans**

At and prior to December 31, 2019, portfolio loans were accounted for under the incurred loss model. On January 1, 2020, portfolio loans began to be accounted for under the expected loss model. Accordingly, some of the information presented below is not comparable from period to period. See Note 1. “Basis of Financial Statement Presentation and Summary of Significant Accounting Policies - (e) Accounting Principle Change” for additional information.

The composition of our total portfolio loans, which excludes loans held for sale, was the following for the periods presented below:

|   | June 30, 2020        | December 31, 2019    |
|---|----------------------|----------------------|
| Commercial:                                       |                      |                      |
| Commercial & Industrial (“C&I”):                  |                      |                      |
| Traditional C&I                                   | \$ 3,361,655         | \$ 2,355,031         |
| Asset-based lending                               | 856,020              | 1,082,618            |
| Payroll finance                                   | 124,354              | 226,866              |
| Warehouse lending                                 | 1,567,186            | 1,330,884            |
| Factored receivables                              | 158,509              | 223,638              |
| Equipment financing                               | 1,699,805            | 1,800,564            |
| Public sector finance                             | 1,399,215            | 1,213,118            |
| <b>Total C&amp;I</b>                              | <b>9,166,744</b>     | <b>8,232,719</b>     |
| Commercial mortgage:                              |                      |                      |
| Commercial real estate (“CRE”)                    | 5,817,958            | 5,418,648            |
| Multi-family                                      | 4,584,939            | 4,876,870            |
| Acquisition, development and construction (“ADC”) | 572,558              | 467,331              |
| <b>Total commercial mortgage</b>                  | <b>10,975,455</b>    | <b>10,762,849</b>    |
| <b>Total commercial</b>                           | <b>20,142,199</b>    | <b>18,995,568</b>    |
| Residential mortgage                              | 1,938,212            | 2,210,112            |
| Consumer  | 214,856              | 234,532              |
| <b>Total portfolio loans</b>                      | <b>22,295,267</b>    | <b>21,440,212</b>    |
| Allowance for credit losses                       | (365,489)            | (106,238)            |
| <b>Total portfolio loans, net</b>                 | <b>\$ 21,929,778</b> | <b>\$ 21,333,974</b> |

Portfolio loans are shown at amortized cost, which includes deferred fees, deferred costs and purchase accounting adjustments, which were \$35.8 million at June 30, 2020 and \$79.6 million at December 31, 2019. The balance of portfolio loans excludes accrued interest receivable.

Included in traditional C&I loans at June 30, 2020, were \$649.4 million principal balance of loans originated under the Small Business Administration (“SBA”) Paycheck Protection Program (“PPP”). The CARES Act authorized the SBA to temporarily guarantee loans under a new 7(a) loan program, the PPP. These loans are 100% guaranteed by the SBA and the full principal amount of the loan may qualify for forgiveness. The loans we originated have a maturity of two years, an interest rate of 1.00% and loan payments are deferred for the initial six months. The majority of these loans have been pledged as collateral on borrowings under the FRB Paycheck Protection Program Lending Facility. See Note 8. “Borrowings” for additional information.

At June 30, 2020 and December 31, 2019, the Bank pledged residential mortgage and CRE loans of \$7.1 billion and \$7.7 billion, respectively, to the FHLB as collateral for certain borrowing arrangements. See Note 8. “Borrowings”.

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**Portfolio loans:**

An analysis of the aging of portfolio loans, segregated by loan type as of June 30, 2020, is presented below:

|  | June 30, 2020        |                           |                           |                         |                      |
|--|----------------------|---------------------------|---------------------------|-------------------------|----------------------|
|  | Current              | 30-59<br>days<br>past due | 60-89<br>days<br>past due | 90+<br>days<br>past due | Total                |
| Traditional C&I                            | \$ 3,336,821         | \$ 652                    | \$ 1,993                  | \$ 22,189               | \$ 3,361,655         |
| Asset-based lending                        | 856,020              | —                         | —                         | —                       | 856,020              |
| Payroll finance                            | 123,773              | —                         | —                         | 581                     | 124,354              |
| Warehouse lending                          | 1,567,186            | —                         | —                         | —                       | 1,567,186            |
| Factored receivables                       | 152,189              | —                         | —                         | 6,320                   | 158,509              |
| Equipment financing                        | 1,617,315            | 31,701                    | 12,792                    | 37,997                  | 1,699,805            |
| Public sector finance                      | 1,399,215            | —                         | —                         | —                       | 1,399,215            |
| CRE  | 5,790,496            | 2,736                     | 8,392                     | 16,334                  | 5,817,958            |
| Multi-family                               | 4,571,630            | 6,450                     | 2,422                     | 4,437                   | 4,584,939            |
| ADC  | 542,124              | —                         | —                         | 30,434                  | 572,558              |
| Residential mortgage                       | 1,864,055            | 14,521                    | 5,581                     | 54,055                  | 1,938,212            |
| Consumer                                   | 202,203              | 1,776                     | 900                       | 9,977                   | 214,856              |
| <b>Total loans</b>                         | <b>\$ 22,023,027</b> | <b>\$ 57,836</b>          | <b>\$ 32,080</b>          | <b>\$ 182,324</b>       | <b>\$ 22,295,267</b> |
| Total TDRs included above                  | \$ 63,143            | \$ 723                    | \$ 1,269                  | \$ 10,669               | \$ 75,804            |
| <b>Non-performing loans:</b>               |                      |                           |                           |                         |                      |
| Loans 90+ days past due and still accruing |                      |                           |                           | \$ 272                  |                      |
| Non-accrual loans                          |                      |                           |                           | 260,333                 |                      |
| Total non-performing loans                 |                      |                           |                           | <u>\$ 260,605</u>       |                      |

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The following table represents an analysis of the aging of portfolio loans, segregated by loan type as of December 31, 2019:

|  | December 31, 2019    |                           |                           |                         |                   |                      |
|--|----------------------|---------------------------|---------------------------|-------------------------|-------------------|----------------------|
|  | Current              | 30-59<br>days<br>past due | 60-89<br>days<br>past due | 90+<br>days<br>past due | Non-<br>accrual   | Total                |
| Traditional C&I                            | \$ 2,324,737         | \$ 961                    | \$ 2,075                  | \$ 110                  | \$ 27,148         | \$ 2,355,031         |
| Asset-based lending                        | 1,077,652            | —                         | —                         | —                       | 4,966             | 1,082,618            |
| Payroll finance                            | 217,470              | —                         | —                         | —                       | 9,396             | 226,866              |
| Warehouse lending                          | 1,330,884            | —                         | —                         | —                       | —                 | 1,330,884            |
| Factored receivables                       | 223,638              | —                         | —                         | —                       | —                 | 223,638              |
| Equipment financing                        | 1,739,772            | 15,678                    | 12,064                    | —                       | 33,050            | 1,800,564            |
| Public sector finance                      | 1,213,118            | —                         | —                         | —                       | —                 | 1,213,118            |
| CRE  | 5,391,483            | 762                       | 190                       | —                       | 26,213            | 5,418,648            |
| Multi-family                               | 4,872,379            | 1,078                     | 13                        | —                       | 3,400             | 4,876,870            |
| ADC  | 466,826              | 71                        | —                         | —                       | 434               | 467,331              |
| Residential mortgage                       | 2,129,840            | 17,904                    | 93                        | —                       | 62,275            | 2,210,112            |
| Consumer                                   | 220,372              | 1,988                     | 3                         | —                       | 12,169            | 234,532              |
| <b>Total loans</b>                         | <b>\$ 21,208,171</b> | <b>\$ 38,442</b>          | <b>\$ 14,438</b>          | <b>\$ 110</b>           | <b>\$ 179,051</b> | <b>\$ 21,440,212</b> |
| Total TDRs included above                  | \$ 49,260            | \$ 547                    | \$ —                      | \$ —                    | \$ 25,849         | \$ 75,656            |
| <b>Non-performing loans:</b>               |                      |                           |                           |                         |                   |                      |
| Loans 90+ days past due and still accruing |                      |                           |                           |                         | \$ 110            |                      |
| Non-accrual loans                          |                      |                           |                           |                         | 179,051           |                      |
| <b>Total non-performing loans</b>          |                      |                           |                           |                         | <b>\$ 179,161</b> |                      |

The following table presents the amortized cost basis of collateral-dependent loans by loan type and collateral as of June 30, 2020:

|                      | Collateral type  |                  |                  |                 | Total             |
|----------------------|------------------|------------------|------------------|-----------------|-------------------|
|                      | Real estate      | Business assets  | Equipment        | Taxi medallions |                   |
| Traditional C&I      | \$ 450           | \$ 6,055         | \$ 3,920         | \$ 9,814        | \$ 20,239         |
| Asset-based lending  | —                | 27,829           | —                | —               | 27,829            |
| Factored receivables | —                | 6,320            | —                | —               | 6,320             |
| Equipment finance    | —                | —                | 11,846           | —               | 11,846            |
| CRE                  | 42,831           | —                | —                | —               | 42,831            |
| Multi-family         | 11,318           | —                | —                | —               | 11,318            |
| ADC                  | 30,434           | —                | —                | —               | 30,434            |
| Residential mortgage | 7,318            | —                | —                | —               | 7,318             |
| Consumer             | 1,910            | —                | —                | —               | 1,910             |
| <b>Total</b>         | <b>\$ 94,261</b> | <b>\$ 40,204</b> | <b>\$ 15,766</b> | <b>\$ 9,814</b> | <b>\$ 160,045</b> |

There were no warehouse lending, payroll finance, or public sector finance loans that were collateral-dependent at June 30, 2020. Collateral-dependent loans include all loans that were TDRs at June 30, 2020. In the table above, \$130.4 million of the total loans were on non-accrual at June 30, 2020. Business assets that secure traditional C&I and asset-based lending loans generally include accounts receivable, inventory, machinery and equipment.

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The following table provides additional information on our non-accrual loans and loans 90 days past due at June 30, 2020:

|                      | June 30, 2020               |                                     |  |
|----------------------|-----------------------------|-------------------------------------|--|
|                      | Total Non-<br>accrual Loans | Non-accrual<br>loans with no<br>ACL | Loans 90<br>days or more<br>past due still<br>accruing<br>interest |
| Traditional C&I      | \$ 27,962                   | \$ 19,789                           | \$ —   |
| Asset-based lending  | 23,188                      | 18,463                              | —  |
| Payroll finance      | 882                         | —                                   | —  |
| Factored receivables | 6,320                       | —                                   | —  |
| Equipment financing  | 53,083                      | 11,845                              | —  |
| CRE                  | 37,394                      | 25,149                              | —  |
| Multi-family         | 9,884                       | 3,529                               | —  |
| ADC                  | 30,434                      | 30,434                              | —  |
| Residential mortgage | 60,308                      | 6,463                               | 272  |
| Consumer             | 10,878                      | 1,097                               | —  |
| <b>Total</b>         | <b>\$ 260,333</b>           | <b>\$ 116,769</b>                   | <b>\$ 272</b>  |

When the ultimate collectability of the total principal of a loan is in doubt and the loan is on non-accrual status, all payments are applied to principal under the cost recovery method. When the ultimate collectability of the total principal of a loan is not in doubt and the loan is on non-accrual status, contractual interest is credited to interest income when received, under the cash basis method.

At June 30, 2020 and December 31, 2019, the recorded investment of residential mortgage loans that were in the process of foreclosure was \$38.2 million and \$38.0 million, respectively, which is included in non-accrual residential mortgage loans above.

The following table provides information on accrued interest receivable that was reversed against interest income for the three and six months ended June 30, 2020:

|                                | Interest reversed             |                             |
|--------------------------------|-------------------------------|-----------------------------|
|                                | For the three<br>months ended | For the six months<br>ended |
|                                | June 30, 2020                 | June 30, 2020               |
| Traditional C&I                | \$ 42                         | \$ 49                       |
| Asset-based lending            | —                             | 67                          |
| CRE                            | 142                           | 288                         |
| Multi-family                   | 84                            | 111                         |
| ADC                            | —                             | 297                         |
| Residential mortgage           | 99                            | 179                         |
| Consumer                       | —                             | 7                           |
| <b>Total interest reversed</b> | <b>\$ 367</b>                 | <b>\$ 998</b>               |

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The following table sets forth loans evaluated for impairment by segment and the allowance for loan losses evaluated by segment at December 31, 2019:

|                              | Loans evaluated by segment            |                                       |                   |                      | Allowance evaluated by segment        |                                       |                                 |
|------------------------------|---------------------------------------|---------------------------------------|-------------------|----------------------|---------------------------------------|---------------------------------------|---------------------------------|
|                              | Individually evaluated for impairment | Collectively evaluated for impairment | PCI loans         | Total loans          | Individually evaluated for impairment | Collectively evaluated for impairment | Total allowance for loan losses |
| Traditional C&I              | \$ 29,838                             | \$ 2,320,256                          | \$ 4,937          | \$ 2,355,031         | \$ —                                  | \$ 15,951                             | \$ 15,951                       |
| Asset-based lending          | 4,684                                 | 1,064,275                             | 13,659            | 1,082,618            | —                                     | 14,272                                | 14,272                          |
| Payroll finance              | 9,396                                 | 217,470                               | —                 | 226,866              | —                                     | 2,064                                 | 2,064                           |
| Warehouse lending            | —                                     | 1,330,884                             | —                 | 1,330,884            | —                                     | 917                                   | 917                             |
| Factored receivables         | —                                     | 223,638                               | —                 | 223,638              | —                                     | 654                                   | 654                             |
| Equipment financing          | 4,971                                 | 1,794,036                             | 1,557             | 1,800,564            | —                                     | 16,723                                | 16,723                          |
| Public sector finance        | —                                     | 1,213,118                             | —                 | 1,213,118            | —                                     | 1,967                                 | 1,967                           |
| CRE                          | 39,882                                | 5,358,023                             | 20,743            | 5,418,648            | —                                     | 27,965                                | 27,965                          |
| Multi-family                 | 11,159                                | 4,860,246                             | 5,465             | 4,876,870            | —                                     | 11,440                                | 11,440                          |
| ADC                          | —                                     | 467,331                               | —                 | 467,331              | —                                     | 4,732                                 | 4,732                           |
| Residential mortgage         | 6,364                                 | 2,140,650                             | 63,098            | 2,210,112            | —                                     | 7,598                                 | 7,598                           |
| Consumer                     | 2,731                                 | 224,986                               | 6,815             | 234,532              | —                                     | 1,955                                 | 1,955                           |
| <b>Total portfolio loans</b> | <b>\$ 109,025</b>                     | <b>\$ 21,214,913</b>                  | <b>\$ 116,274</b> | <b>\$ 21,440,212</b> | <b>\$ —</b>                           | <b>\$ 106,238</b>                     | <b>\$ 106,238</b>               |

The following table presents loans individually evaluated for impairment, excluding PCI loans, by segment of loans at December 31, 2019:

|   | December 31, 2019        |                     |
|---|--------------------------|---------------------|
|   | Unpaid principal balance | Recorded investment |
| Loans with no related allowance recorded: |                          |                     |
| Traditional C&I                           | \$ 39,595                | \$ 29,838           |
| Asset-based lending                       | 16,181                   | 4,684               |
| Payroll finance                           | 9,396                    | 9,396               |
| Equipment financing                       | 6,409                    | 4,971               |
| CRE                                       | 44,526                   | 39,882              |
| Multi-family                              | 11,491                   | 11,159              |
| Residential mortgage                      | 7,728                    | 6,364               |
| Consumer                                  | 2,928                    | 2,731               |
| <b>Total</b>                              | <b>\$ 138,254</b>        | <b>\$ 109,025</b>   |

Our policy generally requires a charge-off of the difference between the present value of the cash flows or the net value of the collateral securing the loan and our recorded investment. As a result, there were no impaired loans with an allowance recorded at December 31, 2019.

#### Short-term Loan Deferrals

Under the CARES Act, financial institutions are permitted to not classify loan modifications that were related to the impact of COVID-19 if:

- The modifications were made between March 1, 2020 and the earlier of December 31, 2020 or 60 days after the end of the public health emergency, and

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- The underlying loans were not more than 30 days past due as of December 31, 2019.

We implemented a loan modification program in accordance with the CARES Act to provide temporary relief to borrowers that meet the requirements. The program allows for deferral of payments for up to 90 days, which we may extend for an additional 90 days at our option. The deferred payments and accrued interest during the deferral period are due and payable on or before the maturity of the loan. At June 30, 2020, we granted temporary deferrals on 2,567 loans with an outstanding balance of \$1.7 billion. There is \$7.8 million of accrued interest associated with these loans. Under the provisions of the CARES Act, none of these loans were considered a troubled debt restructuring (“TDR”) at June 30, 2020. The table below reflects the balance of deferrals by portfolio:

|                           | Loan balance outstanding | Deferral of principal and interest | %     | Non-pass rated loans |             |
|---------------------------|--------------------------|------------------------------------|-------|----------------------|-------------|
|                           |                          |                                    |       | Special mention      | Substandard |
| Commercial                |                          |                                    |       |                      |             |
| C&I:                      |                          |                                    |       |                      |             |
| Traditional C&I           | \$ 3,361,655             | \$ 212,878                         | 6.3 % | \$ 129               | \$ 9,589    |
| Asset-based lending       | 856,020                  | —                                  | —     | —                    | —           |
| Payroll finance           | 124,354                  | 295                                | 0.2   | —                    | —           |
| Warehouse lending         | 1,567,186                | —                                  | —     | —                    | —           |
| Factored receivables      | 158,509                  | —                                  | —     | —                    | —           |
| Equipment finance         | 1,699,805                | 236,207                            | 13.9  | 10,820               | 7,203       |
| Public sector finance     | 1,399,215                | —                                  | —     | —                    | —           |
| Total C&I                 | 9,166,744                | 449,380                            | 4.9   | 10,949               | 16,792      |
| Commercial mortgage:      |                          |                                    |       |                      |             |
| Commercial real estate    | 5,817,958                | 749,318                            | 12.9  | 3,575                | 29,792      |
| Multi-family              | 4,584,939                | 197,758                            | 4.3   | 7,789                | 122         |
| ADC                       | 572,558                  | 17,353                             | 3.0   | —                    | —           |
| Total commercial mortgage | 10,975,455               | 964,429                            | 8.8   | 11,364               | 29,914      |
| Total commercial          | 20,142,199               | 1,413,809                          | 7.0   | 22,313               | 46,706      |
| Residential               | 1,938,212                | 293,389                            | 15.1  | —                    | 8,609       |
| Consumer                  | 214,856                  | 19,320                             | 9.0   | —                    | 671         |
| Total Portfolio loans     | \$ 22,295,267            | \$ 1,726,518                       | 7.7 % | \$ 22,313            | \$ 55,986   |

### TDRs

At June 30, 2020 and December 31, 2019, TDRs were \$75.8 million and \$75.7 million, respectively. ACL - loans of \$1.9 million at June 30, 2020 and an allowance for loan losses of \$2.3 million at December 31, 2019 were related to TDRs. We did not have any outstanding commitments to lend additional amounts to customers with loans classified as TDRs as of June 30, 2020 or December 31, 2019.

The modification of the terms of loans that were subject to a TDR in the six months ended June 30, 2020 and June 30, 2019 consisted mainly of an extension of loan maturity date, converting a loan to interest only for a defined period of time, deferral of interest payments, waiver of certain covenants, or reducing collateral requirements or interest rates.

The following table presents loans by segment modified as TDRs that occurred during the first six months of 2020 and 2019:

|                      | June 30, 2020 |                     |                   | June 30, 2019 |                     |                   |
|----------------------|---------------|---------------------|-------------------|---------------|---------------------|-------------------|
|                      | Number        | Recorded investment |                   | Number        | Recorded investment |                   |
|                      |               | Pre-modification    | Post-modification |               | Pre-modification    | Post-modification |
| Traditional C&I      | —             | \$ —                | \$ —              | 1             | \$ 5,026            | \$ 5,026          |
| Asset-based lending  | 2             | 10,553              | 9,822             | —             | —                   | —                 |
| Equipment financing  | —             | —                   | —                 | 5             | 2,806               | 2,806             |
| Residential mortgage | —             | —                   | —                 | 3             | 1,274               | 1,274             |
| Total TDRs           | 2             | \$ 10,553           | \$ 9,822          | 9             | \$ 9,106            | \$ 9,106          |





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During the six months ended June 30, 2020, there were two equipment finance loans, two CRE loans, two residential mortgage loans and two consumer loans that were designated as a TDR that experienced payment defaults within the twelve months following the modification, which totaled \$16.9 million. During the six months ended June 30, 2019, except for certain TDRs that are included in non-accrual loans, there were no TDRs that experienced a payment default within the twelve months following a modification. A payment default is defined as missing three consecutive monthly payments or being over 90 days past due on a scheduled payment. TDRs are formal loan modifications which consist mainly of an extension of the loan maturity date, converting a loan to interest only for some defined period of time, deferral of interest payments, waiver of certain covenants, or reducing collateral requirements or interest rates. TDRs during the periods presented above did not significantly impact the determination of the ACL - loans.

TDRs that subsequently defaulted described above increased the ACL by \$3.9 million and resulted in charge-offs of \$4.3 million during the six months ended June 30, 2020. A loan is considered to be in payment default once it is 90 days contractually past due under the modified terms.

**(5) Allowance for Credit Losses - Loans**

Activity in our ACL - loans for the three months ended June 30, 2020 is summarized in the table below:

|                          | For the three months ended June 30, 2020 |                    |                 |                    |                         |                   |
|--------------------------|--|--------------------|-----------------|--------------------|-------------------------|-------------------|
|                          | Beginning<br>balance                     | Charge-offs        | Recoveries      | Net<br>charge-offs | Provision /<br>(credit) | Ending<br>balance |
| Traditional C&I          | \$ 35,289                                | \$ (3,988)         | \$ 116          | \$ (3,872)         | \$ 13,097               | \$ 44,514         |
| Asset-based lending      | 26,490                                   | (1,500)            | —               | (1,500)            | 5,863                   | 30,853            |
| Payroll finance          | 3,730                                    | (560)              | 1               | (559)              | (1,240)                 | 1,931             |
| Warehouse lending        | 289                                      | —                  | —               | —                  | 379                     | 668               |
| Factored receivables     | 9,194                                    | (3,731)            | 1               | (3,730)            | 5,122                   | 10,586            |
| Equipment financing      | 60,028                                   | (7,863)            | 387             | (7,476)            | 25,620                  | 78,172            |
| Public sector finance    | 1,929                                    | —                  | —               | —                  | 1,836                   | 3,765             |
| CRE                      | 97,586                                   | (11)               | 584             | 573                | 746                     | 98,905            |
| Multi-family             | 49,097                                   | (154)              | 1               | (153)              | (12,292)                | 36,652            |
| ADC                      | 15,204                                   | (1)                | —               | (1)                | 2,992                   | 18,195            |
| Residential mortgage     | 23,090                                   | (702)              | —               | (702)              | 11,567                  | 33,955            |
| Consumer                 | 4,518                                    | (172)              | 31              | (141)              | 2,916                   | 7,293             |
| <b>Total ACL - loans</b> | <b>\$ 326,444</b>                        | <b>\$ (18,682)</b> | <b>\$ 1,121</b> | <b>\$ (17,561)</b> | <b>\$ 56,606</b>        | <b>\$ 365,489</b> |

Annualized net charge-offs to average loans outstanding: 0.32 %

The table below presents the allowance for loan losses roll forward for the three months ended June 30, 2019 under the former incurred loss methodology.

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|  | Beginning balance | Charge-offs       | Recoveries      | Net charge-offs   | Provision / (credit) | Ending balance    |
|--|-------------------|-------------------|-----------------|-------------------|----------------------|-------------------|
| Traditional C&I                        | \$ 17,936         | \$ (754)          | \$ 445          | \$ (309)          | \$ 22                | \$ 17,649         |
| Asset-based lending                    | 8,573             | (3,551)           | —               | (3,551)           | 6,883                | 11,905            |
| Payroll finance                        | 2,100             | (84)              | 3               | (81)              | (628)                | 1,391             |
| Warehouse lending                      | 693               | —                 | —               | —                 | 150                  | 843               |
| Factored receivables                   | 1,092             | (27)              | 4               | (23)              | 88                   | 1,157             |
| Equipment financing                    | 14,326            | (1,335)           | 79              | (1,256)           | 1,214                | 14,284            |
| Public sector finance                  | 1,134             | —                 | —               | —                 | 460                  | 1,594             |
| CRE                                    | 33,087            | (238)             | 649             | 411               | 1,348                | 34,846            |
| Multi-family                           | 8,659             | —                 | 6               | 6                 | 695                  | 9,360             |
| ADC                                    | 1,912             | —                 | —               | —                 | 360                  | 2,272             |
| Residential mortgage                   | 6,925             | (689)             | 1               | (688)             | 872                  | 7,109             |
| Consumer                               | 2,523             | (467)             | 162             | (305)             | 36                   | 2,254             |
| <b>Total allowance for loan losses</b> | <b>\$ 98,960</b>  | <b>\$ (7,145)</b> | <b>\$ 1,349</b> | <b>\$ (5,796)</b> | <b>\$ 11,500</b>     | <b>\$ 104,664</b> |

Annualized net charge-offs to average loans outstanding:

0.12 %

The table below presents the allowance for credit losses roll forward for the six months ended June 30, 2020. The CECL Day 1 column presents adjustments recorded through retained earnings to adopt the CECL standard and the increase to ACL - loans associated with purchase accounting marks on loans that were classified as PCI at December 31, 2019.

For the six months ended June 30, 2020

|                          | Beginning balance | CECL Day 1       | Charge-offs        | Recoveries      | Net charge-offs    | Provision / (credit) | Ending balance    |
|--------------------------|-------------------|------------------|--------------------|-----------------|--------------------|----------------------|-------------------|
| Traditional C&I          | \$ 15,951         | \$ 5,325         | \$ (4,286)         | \$ 591          | \$ (3,695)         | \$ 26,933            | \$ 44,514         |
| Asset-based lending      | 14,272            | 11,973           | (2,485)            | —               | (2,485)            | 7,093                | 30,853            |
| Payroll finance          | 2,064             | 1,334            | (560)              | 10              | (550)              | (917)                | 1,931             |
| Warehouse lending        | 917               | (362)            | —                  | —               | —                  | 113                  | 668               |
| Factored receivables     | 654               | 795              | (3,738)            | 5               | (3,733)            | 12,870               | 10,586            |
| Equipment financing      | 16,723            | 33,000           | (12,656)           | 1,492           | (11,164)           | 39,613               | 78,172            |
| Public sector finance    | 1,967             | (766)            | —                  | —               | —                  | 2,564                | 3,765             |
| CRE                      | 27,965            | 8,037            | (1,286)            | 644             | (642)              | 63,545               | 98,905            |
| Multi-family             | 11,440            | 14,906           | (154)              | 1               | (153)              | 10,459               | 36,652            |
| ADC                      | 4,732             | (119)            | (4)                | 105             | 101                | 13,481               | 18,195            |
| Residential mortgage     | 7,598             | 14,104           | (1,774)            | —               | (1,774)            | 14,027               | 33,955            |
| Consumer                 | 1,955             | 2,357            | (1,577)            | 1,156           | (421)              | 3,402                | 7,293             |
| <b>Total ACL - loans</b> | <b>\$ 106,238</b> | <b>\$ 90,584</b> | <b>\$ (28,520)</b> | <b>\$ 4,004</b> | <b>\$ (24,516)</b> | <b>\$ 193,183</b>    | <b>\$ 365,489</b> |

Annualized net charge-offs to average loans outstanding:

0.24 %

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On January 1, 2020, we adopted CECL, which replaced the incurred loss method we used in prior periods for determining the provision for credit losses and the ACL. Under CECL, we record at the inception of the loan an expected loss of all cash flows we do not expect to collect over the life of the loan. The adoption of CECL resulted in an increase in our ACL of \$90.6 million, which did not impact our consolidated income statement. We recorded provision for credit losses of \$193.2 million for the six months ended June 30, 2020.

The table below presents the allowance for loan losses roll forward for the six months ended June 30, 2019 under the former incurred loss methodology.

|  | For the six months ended June 30, 2019 |                    |                 |                    |                    |                   |
|--|--|--------------------|-----------------|--------------------|--------------------|-------------------|
|  | Beginning balance                      | Charge-offs        | Recoveries      | Net charge-offs    | Provision/(credit) | Ending balance    |
| Traditional C&I                        | \$ 14,201                              | \$ (5,593)         | \$ 584          | \$ (5,009)         | \$ 8,457           | \$ 17,649         |
| Asset-based lending                    | 7,979                                  | (3,551)            | —               | (3,551)            | 7,477              | 11,905            |
| Payroll finance                        | 2,738                                  | (84)               | 4               | (80)               | (1,267)            | 1,391             |
| Warehouse lending                      | 2,800                                  | —                  | —               | —                  | (1,957)            | 843               |
| Factored receivables                   | 1,064                                  | (59)               | 125             | 66                 | 27                 | 1,157             |
| Equipment financing                    | 12,450                                 | (2,584)            | 210             | (2,374)            | 4,208              | 14,284            |
| Public sector finance                  | 1,739                                  | —                  | —               | —                  | (145)              | 1,594             |
| CRE                                    | 32,285                                 | (255)              | 658             | 403                | 2,158              | 34,846            |
| Multi-family                           | 8,355                                  | —                  | 109             | 109                | 896                | 9,360             |
| ADC                                    | 1,769                                  | —                  | —               | —                  | 503                | 2,272             |
| Residential mortgage                   | 7,454                                  | (1,774)            | 2               | (1,772)            | 1,427              | 7,109             |
| Consumer                               | 2,843                                  | (910)              | 405             | (505)              | (84)               | 2,254             |
| <b>Total allowance for loan losses</b> | <b>\$ 95,677</b>                       | <b>\$ (14,810)</b> | <b>\$ 2,097</b> | <b>\$ (12,713)</b> | <b>\$ 21,700</b>   | <b>\$ 104,664</b> |

Annualized net charge-offs to average loans outstanding:

0.13 %

**Credit Quality Indicators**

As part of the ongoing monitoring of the credit quality of our loan portfolio, management tracks certain credit quality indicators, including trends related to: (i) the weighted-average risk grade of commercial loans; (ii) the level of classified commercial loans; (iii) the delinquency status of residential mortgage and consumer loans, including home equity lines of credit (“HELOC”) and other consumer loans; (iv) net charge-offs; (v) non-performing loans (see details above); and (vi) the general economic conditions in the greater New York metropolitan region. We analyze loans individually by classifying the loans by credit risk, except residential mortgage loans, HELOC and other consumer loans, which are evaluated on a homogeneous pool basis unless the loan balance is greater than \$750 thousand. This analysis is performed at least quarterly on all graded 7-Special Mention and lower loans. We use the following definitions of risk ratings:

**1 and 2** - These grades include loans that are secured by cash, marketable securities or cash surrender value of life insurance policies.

**3** - This grade includes loans to borrowers with strong earnings and cash flow that have the ability to service debt. The borrower’s assets and liabilities are generally well-matched and are above average quality. The borrower has ready access to multiple sources of funding, including alternatives such as term loans, private equity placements or trade credit.

**4** - This grade includes loans to borrowers with above average cash flow, adequate earnings and debt service coverage ratios. The borrower generates discretionary cash flow, assets and liabilities are reasonably matched, and the borrower has access to other sources of debt funding or additional trade credit at market rates.

**5** - This grade includes loans to borrowers with adequate earnings and cash flow and reasonable debt service coverage ratios. Overall leverage is acceptable and there is average reliance upon trade credit. Management has a reasonable amount of experience and depth, and owners are willing to invest available outside capital, as necessary.

**6** - This grade includes loans to borrowers where there is evidence of some strain, earnings are inconsistent and volatile, and the borrowers’ outlook is uncertain. Generally, such borrowers have higher leverage than those with a better risk rating. These borrowers typically have limited access to alternative sources of bank debt and may be dependent upon debt funding for working capital support.

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**7 - Special Mention (OCC definition)** - Other Assets Especially Mentioned are loans that have potential weaknesses which may, if not reversed or corrected, weaken the asset or inadequately protect the Bank's credit position at some future date. Such assets constitute an undue and unwarranted credit risk but not to the point of justifying a classification of "Substandard." The credit risk may be relatively minor yet constitute an unwarranted risk in light of the circumstances surrounding a specific asset.

**8 - Substandard (OCC definition)** - These loans are inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Assets so classified must have a well-defined weakness that jeopardizes the liquidation of the debt. They are characterized by the distinct possibility that the Bank will sustain some losses if the deficiencies are not corrected. Loss potential, while existing in the aggregate amount of substandard assets, does not have to exist in individual assets classified as substandard.

**9 - Doubtful (OCC definition)** - These loans have all the weakness inherent in one classified as "Substandard" with the added characteristics that the weakness makes collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. The possibility of loss is extremely high, but, because of certain important and reasonably specific pending factors which may work to the advantage and strengthening of the asset, its classification as an estimated loss is deferred until its more exact status may be determined. Pending factors may include a proposed merger, acquisition, liquidating procedures, capital injection, perfecting liens or additional collateral and refinancing plans.

**10 - Loss (OCC definition)** - These loans are charged-off because they are determined to be uncollectible and unbankable assets. This classification does not indicate that the asset has no absolute recovery or salvage value, but rather it is not practical or desirable to defer writing-off this asset even though partial recovery may be effected in the future. Losses should be taken in the period in which they are determined to be uncollectible.

Loans that are risk-rated 1 through 6 as defined above are considered to be pass-rated loans. As of June 30, 2020 and December 31, 2019, the risk category of non-pass rated loans by segment was as follows:

|                      | June 30, 2020     |                   | December 31, 2019 |                   |
|----------------------|-------------------|-------------------|-------------------|-------------------|
|                      | Special Mention   | Substandard       | Special Mention   | Substandard       |
| Traditional C&I      | \$ 4,185          | \$ 40,007         | \$ 8,403          | \$ 39,470         |
| Asset-based lending  | 46,437            | 77,519            | 78,445            | 24,508            |
| Payroll finance      | 124               | 882               | 437               | 17,156            |
| Factored receivables | —                 | 6,492             | —                 | —                 |
| Equipment financing  | 16,543            | 77,127            | 25,897            | 42,503            |
| CRE                  | 54,050            | 87,931            | 26,363            | 79,992            |
| Multi-family         | 17,576            | 23,680            | 18,463            | 16,247            |
| ADC                  | 1,855             | 30,434            | 1,855             | 505               |
| Residential mortgage | 993               | 60,866            | 93                | 62,771            |
| Consumer             | 42                | 10,979            | 20                | 12,276            |
| <b>Total</b>         | <b>\$ 141,805</b> | <b>\$ 415,917</b> | <b>\$ 159,976</b> | <b>\$ 295,428</b> |

At June 30, 2020 and December 31, 2019, there were no loans rated doubtful or loss.

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We evaluate whether a modification, extension or renewal of a loan is a current period origination in accordance with GAAP. Generally, loans up for renewal are subject to a full credit evaluation before the renewal is granted and such loans are considered current period originations for purposes of the table below. At June 30, 2020, our loans based on year of origination and risk designation is as follows:

|                                   | Term loans amortized cost basis by origination year |                |                |                |                |                | Revolving loans  | Revolving loans converted to term | Total            |
|-----------------------------------|---|----------------|----------------|----------------|----------------|----------------|------------------|-----------------------------------|------------------|
|                                   | 2020  | 2019           | 2018           | 2017           | 2016           | Prior          |                  |                                   |                  |
| <b>Traditional C&amp;I</b>        |   |                |                |                |                |                |                  |                                   |                  |
| Pass                              | \$ 791,022  | \$ 357,254     | \$ 339,243     | \$ 164,754     | \$ 96,846      | \$ 139,804     | \$ 1,428,540     | \$ —                              | \$ 3,317,463     |
| Special mention                   | —   | 549            | 325            | 1,958          | 54             | 359            | 940              | —                                 | 4,185            |
| Substandard                       | 1   | 2,082          | 6,470          | 4,468          | —              | 11,229         | 15,757           | —                                 | 40,007           |
| <b>Total traditional C&amp;I</b>  | <b>791,023</b>                                      | <b>359,885</b> | <b>346,038</b> | <b>171,180</b> | <b>96,900</b>  | <b>151,392</b> | <b>1,445,237</b> | <b>—</b>                          | <b>3,361,655</b> |
| <b>Asset-Based Loans</b>          |   |                |                |                |                |                |                  |                                   |                  |
| Pass                              | 9,488   | 6,728          | 4,076          | 36,756         | 43,478         | 17,862         | 613,676          | —                                 | 732,064          |
| Special mention                   | 8,500   | 509            | 103            | —              | —              | —              | 37,325           | —                                 | 46,437           |
| Substandard                       | —   | —              | —              | —              | 1,361          | 2,817          | 73,341           | —                                 | 77,519           |
| <b>Total asset-based lending</b>  | <b>17,988</b>                                       | <b>7,237</b>   | <b>4,179</b>   | <b>36,756</b>  | <b>44,839</b>  | <b>20,679</b>  | <b>724,342</b>   | <b>—</b>                          | <b>856,020</b>   |
| <b>Payroll Finance</b>            |   |                |                |                |                |                |                  |                                   |                  |
| Pass                              | —   | —              | 12,802         | —              | —              | —              | 110,546          | —                                 | 123,348          |
| Special mention                   | —   | —              | —              | —              | —              | —              | 124              | —                                 | 124              |
| Substandard                       | —   | —              | —              | —              | —              | —              | 882              | —                                 | 882              |
| <b>Total payroll finance</b>      | <b>—</b>  | <b>—</b>       | <b>12,802</b>  | <b>—</b>       | <b>—</b>       | <b>—</b>       | <b>111,552</b>   | <b>—</b>                          | <b>124,354</b>   |
| <b>Warehouse Lending</b>          |   |                |                |                |                |                |                  |                                   |                  |
| Pass                              | 79,326  | 82,945         | 210,143        | 126,595        | 550,196        | 517,981        | —                | —                                 | 1,567,186        |
| Special mention                   | —   | —              | —              | —              | —              | —              | —                | —                                 | —                |
| Substandard                       | —   | —              | —              | —              | —              | —              | —                | —                                 | —                |
| <b>Total warehouse lending</b>    | <b>79,326</b>                                       | <b>82,945</b>  | <b>210,143</b> | <b>126,595</b> | <b>550,196</b> | <b>517,981</b> | <b>—</b>         | <b>—</b>                          | <b>1,567,186</b> |
| <b>Factored Receivables</b>       |   |                |                |                |                |                |                  |                                   |                  |
| Pass                              | —   | —              | —              | —              | —              | —              | 152,017          | —                                 | 152,017          |
| Special mention                   | —   | —              | —              | —              | —              | —              | —                | —                                 | —                |
| Substandard                       | —   | —              | —              | —              | —              | —              | 6,492            | —                                 | 6,492            |
| <b>Total factored receivables</b> | <b>—</b>  | <b>—</b>       | <b>—</b>       | <b>—</b>       | <b>—</b>       | <b>—</b>       | <b>158,509</b>   | <b>—</b>                          | <b>158,509</b>   |
| <b>Equipment Financing</b>        |   |                |                |                |                |                |                  |                                   |                  |
| Pass                              | 281,836   | 652,159        | 331,923        | 170,821        | 104,970        | 64,426         | —                | —                                 | 1,606,135        |
| Special mention                   | —   | 3,692          | 4,598          | 6,054          | 812            | 1,387          | —                | —                                 | 16,543           |

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|                              |                     |                     |                     |                     |                     |                     |                     |                  |                      |
|------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|------------------|----------------------|
| Substandard                  | —                   | 29,091              | 20,729              | 16,044              | 6,004               | 5,259               | —                   | —                | 77,127               |
| Total equipment financing    | 281,836             | 684,942             | 357,250             | 192,919             | 111,786             | 71,072              | —                   | —                | 1,699,805            |
| <b>Public Sector Finance</b> |                     |                     |                     |                     |                     |                     |                     |                  |                      |
| Pass                         | 209,698             | 415,841             | 216,708             | 293,257             | 190,463             | 73,248              | —                   | —                | 1,399,215            |
| Special mention              | —                   | —                   | —                   | —                   | —                   | —                   | —                   | —                | —                    |
| Substandard                  | —                   | —                   | —                   | —                   | —                   | —                   | —                   | —                | —                    |
| Total public sector finance  | 209,698             | 415,841             | 216,708             | 293,257             | 190,463             | 73,248              | —                   | —                | 1,399,215            |
| <b>CRE</b>                   |                     |                     |                     |                     |                     |                     |                     |                  |                      |
| Pass                         | 678,622             | 1,418,239           | 1,030,051           | 584,824             | 624,060             | 1,340,181           | —                   | —                | 5,675,977            |
| Special mention              | 12,511              | 1,978               | 235                 | 6,233               | —                   | 33,093              | —                   | —                | 54,050               |
| Substandard                  | —                   | 12,795              | 119                 | 2,541               | 5,352               | 67,124              | —                   | —                | 87,931               |
| Total CRE                    | 691,133             | 1,433,012           | 1,030,405           | 593,598             | 629,412             | 1,440,398           | —                   | —                | 5,817,958            |
| <b>Multi-family</b>          |                     |                     |                     |                     |                     |                     |                     |                  |                      |
| Pass                         | 209,599             | 748,377             | 443,927             | 668,214             | 684,963             | 1,712,543           | 76,060              | —                | 4,543,683            |
| Special mention              | —                   | —                   | —                   | —                   | —                   | 17,576              | —                   | —                | 17,576               |
| Substandard                  | —                   | —                   | —                   | —                   | 1,392               | 22,288              | —                   | —                | 23,680               |
| Total multi-family           | 209,599             | 748,377             | 443,927             | 668,214             | 686,355             | 1,752,407           | 76,060              | —                | 4,584,939            |
| <b>ADC</b>                   |                     |                     |                     |                     |                     |                     |                     |                  |                      |
| Pass                         | 97,404              | 201,566             | 124,599             | 68,402              | 27,054              | 21,244              | —                   | —                | 540,269              |
| Special mention              | —                   | —                   | —                   | 1,855               | —                   | —                   | —                   | —                | 1,855                |
| Substandard                  | —                   | —                   | —                   | 30,000              | —                   | 434                 | —                   | —                | 30,434               |
| Total ADC                    | 97,404              | 201,566             | 124,599             | 100,257             | 27,054              | 21,678              | —                   | —                | 572,558              |
| <b>Residential</b>           |                     |                     |                     |                     |                     |                     |                     |                  |                      |
| Pass                         | 2,749               | 13,183              | 55,398              | 54,196              | 134,572             | 1,616,255           | —                   | —                | 1,876,353            |
| Special mention              | —                   | —                   | —                   | —                   | —                   | 993                 | —                   | —                | 993                  |
| Substandard                  | —                   | —                   | —                   | —                   | 401                 | 60,465              | —                   | —                | 60,866               |
| Total residential            | 2,749               | 13,183              | 55,398              | 54,196              | 134,973             | 1,677,713           | —                   | —                | 1,938,212            |
| <b>Consumer</b>              |                     |                     |                     |                     |                     |                     |                     |                  |                      |
| Pass                         | 61                  | 457                 | 586                 | 491                 | 206                 | 6,132               | 124,058             | 71,844           | 203,835              |
| Special mention              | —                   | —                   | —                   | —                   | —                   | —                   | 42                  | —                | 42                   |
| Substandard                  | —                   | —                   | —                   | —                   | —                   | 404                 | 3,138               | 7,437            | 10,979               |
| Total consumer               | 61                  | 457                 | 586                 | 491                 | 206                 | 6,536               | 127,238             | 79,281           | 214,856              |
| <b>Total Loans</b>           | <b>\$ 2,380,817</b> | <b>\$ 3,947,445</b> | <b>\$ 2,802,035</b> | <b>\$ 2,237,463</b> | <b>\$ 2,472,184</b> | <b>\$ 5,733,104</b> | <b>\$ 2,642,938</b> | <b>\$ 79,281</b> | <b>\$ 22,295,267</b> |

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**(6) Goodwill and Other Intangible Assets**

The balance of goodwill and other intangible assets for the periods presented were as follows:

|                          | June 30,<br>2020 | December 31,<br>2019 |
|--------------------------|------------------|----------------------|
| Goodwill                 | \$ 1,683,482     | \$ 1,683,482         |
| Other intangible assets: |                  |                      |
| Core deposits            | \$ 77,865        | \$ 85,922            |
| Customer lists           | 3,599            | 3,942                |
| Trade name               | 20,500           | 20,500               |
| Total                    | \$ 101,964       | \$ 110,364           |

Impairment of goodwill and other intangible assets may exist when the carrying value of goodwill exceeds its fair value. During the quarter ended June 30, 2020, due to macroeconomic and other factors, we concluded a quantitative evaluation of goodwill was required to determine if it was more likely than not that goodwill and other intangible assets were impaired. If the carrying amount of the goodwill exceeds the fair value of goodwill, an impairment loss is recognized in an amount equal to that excess. We engaged an independent third-party to perform a quantitative goodwill impairment test. The third-party relied mainly on a discounted cash flow analysis to estimate fair value, which was approximately 10% greater than carrying value. If we deem our intangible assets to be impaired, in the future, a non-cash charge for the amount of such impairment would be recorded to earnings and would have no impact on tangible capital or our regulatory capital ratios.

The decrease in other intangible assets at June 30, 2020 compared to December 31, 2019 was due to amortization of intangibles.

The estimated aggregate future amortization expense for intangible assets remaining as of June 30, 2020 was as follows:

|                   | Amortization<br>expense |
|-------------------|-------------------------|
| Remainder of 2020 | \$ 8,400                |
| 2021              | 15,104                  |
| 2022              | 13,703                  |
| 2023              | 12,322                  |
| 2024              | 10,448                  |
| 2025              | 8,722                   |
| Thereafter        | 12,765                  |
| Total             | \$ 81,464               |

**(7) Deposits**

Deposit balances at June 30, 2020 and December 31, 2019 were as follows:

|                             | June 30,<br>2020 | December 31,<br>2019 |
|-----------------------------|------------------|----------------------|
| Non-interest bearing demand | \$ 5,407,728     | \$ 4,304,943         |
| Interest bearing demand     | 4,636,702        | 4,427,012            |
| Savings                     | 2,669,982        | 2,652,764            |
| Money market                | 8,252,091        | 7,585,888            |
| Certificates of deposit     | 2,634,118        | 3,448,051            |
| Total deposits              | \$ 23,600,621    | \$ 22,418,658        |

Total municipal deposits, which are included in the deposit balances above, were \$1.7 billion and \$2.0 billion at June 30, 2020 and December 31, 2019, respectively. See Note 3. "Securities" for the aggregate amount of securities that were pledged as collateral for municipal deposits and other purposes.



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Brokered deposits at June 30, 2020 and December 31, 2019 were as follows:

|                         | June 30,<br>2020    | December 31,<br>2019 |
|-------------------------|---------------------|----------------------|
| Interest bearing demand | \$ 151,981          | \$ 149,566           |
| Money market            | 1,171,910           | 944,627              |
| Certificates of deposit | 241,153             | 772,251              |
| Total brokered deposits | <u>\$ 1,565,044</u> | <u>\$ 1,866,444</u>  |

### (8) Borrowings

Our borrowings and weighted average interest rates were as follows for the periods presented:

|  | June 30,<br>2020    |        | December 31,<br>2019 |        |
|--|---------------------|--------|----------------------|--------|
|  | Amount              | Rate   | Amount               | Rate   |
| <b>By type of borrowing:</b>                   |                     |        |                      |        |
| FHLB borrowings                                | \$ 975,058          | 1.60 % | \$ 2,245,653         | 2.04 % |
| Paycheck Protection Program Liquidity Facility | 568,350             | 0.35   | —                    | —      |
| Repurchase agreements                          | 26,448              | 1.15   | 22,678               | 1.20   |
| 3.50% Senior Notes                             | —                   | —      | 173,504              | 3.19   |
| Subordinated Notes - Company                   | 271,096             | 4.17   | 270,941              | 4.17   |
| Subordinated Notes - Bank                      | 173,307             | 5.45   | 173,182              | 5.45   |
| Total borrowings                               | <u>\$ 2,014,259</u> | 1.92 % | <u>\$ 2,885,958</u>  | 2.53 % |
| <b>By remaining period to maturity:</b>        |                     |        |                      |        |
| Less than one year                             | \$ 651,506          | 1.51 % | \$ 1,491,446         | 2.19 % |
| One to two years                               | 893,350             | 0.85   | 925,388              | 2.07   |
| Two to three years                             | 25,000              | 1.71   | 25,000               | 1.71   |
| Greater than five years                        | 444,403             | 4.67   | 444,124              | 4.67   |
| Total borrowings                               | <u>\$ 2,014,259</u> | 1.92 % | <u>\$ 2,885,958</u>  | 2.53 % |

*FHLB borrowings.* As a member of the FHLB, the Bank may borrow up to a discounted percentage of the amount of eligible mortgages and securities that have been pledged as collateral under a blanket security agreement. As of June 30, 2020 and December 31, 2019, the Bank had total residential mortgage and CRE loans pledged after discount of \$7.1 billion and \$7.7 billion, respectively. In addition to the pledged mortgages, the Bank had also pledged securities to secure borrowings, which are disclosed in Note 3. "Securities." As of June 30, 2020, the Bank had unused borrowing capacity at the FHLB of \$5.9 billion and may increase such borrowing capacity by pledging securities not required to be pledged for other purposes with a collateral value of approximately \$2.8 billion. In the six months ended June 30, 2020, the Bank redeemed \$650.0 million of FHLB borrowings with a weighted average interest rate of 2.22% and incurred a loss of \$10.5 million.

*Paycheck Protection Program ("PPP") Liquidity Facility.* As a participant in the SBA PPP, the Bank may pledge originated PPP loans as collateral at face value to the FRB of New York for term financings. As of June 30, 2020, the Bank has pledged PPP loans equal to the amount borrowed.

### (9) Derivatives

We have entered into interest rate swap contracts that are both over-the-counter, or OTC, and those that are exchanged on futures markets such as the Chicago Mercantile Exchange ("CME") and London Clearing House ("LCH"). At June 30, 2020 and December 31, 2019, the OTC derivatives are included in our consolidated financial statements at the gross fair value amount of the asset (included in other assets) and liability (included in other liabilities), which represents the change in the fair value of the contract since inception. The CME legally characterizes variation margin payments (a payment made based on changes in the fair value of the interest rate swap contracts) as a settlement, referred to as settled-to-market ("STM"). As a result, at June 30, 2020 and December 31, 2019, we posted cash collateral under STMs in the amounts of \$105.2 million and \$43.0 million, respectively, for the net fair value of our CME and LCH interest rate swap contracts with another financial institution. The increase was mainly due to an increase in swap contracts and changes



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in the fair value of the underlying interest rate swap contracts, which may change daily, positively or negatively, mainly due to changes in interest rates.

We do not typically require our commercial customers to post cash or securities as collateral on our program of back-to-back swaps. However, certain language is written into the International Swaps and Derivatives Association agreement and loan documents where, in default situations, we are allowed to access collateral supporting the loan relationship to recover any losses suffered on the derivative asset or liability.

Summary information as of June 30, 2020 and December 31, 2019 regarding these derivatives is presented below:

|                                | Notional<br>amount  | Average<br>maturity (in<br>years) | Weighted<br>average<br>fixed rate | Weighted<br>average<br>variable rate | Fair value        |
|--------------------------------|---------------------|-----------------------------------|-----------------------------------|--------------------------------------|-------------------|
| <b>June 30, 2020</b>           |                     |                                   |                                   |                                      |                   |
| Included in other assets:      |                     |                                   |                                   |                                      |                   |
| Third-party interest rate swap | \$ —                |                                   |                                   |                                      | \$ —              |
| Customer interest rate swap    | 1,959,329           |                                   |                                   |                                      | 174,553           |
| <b>Total</b>                   | <b>\$ 1,959,329</b> | 4.83                              | 4.43 %                            | 1 m Libor + 2.19%                    | <b>\$ 174,553</b> |
| Included in other liabilities: |                     |                                   |                                   |                                      |                   |
| Third-party interest rate swap | \$ 1,959,329        |                                   |                                   |                                      | \$ 69,344         |
| Customer interest rate swap    | —                   |                                   |                                   |                                      | —                 |
| <b>Total</b>                   | <b>\$ 1,959,329</b> | 4.83                              | 4.43 %                            | 1 m Libor + 2.19%                    | <b>\$ 69,344</b>  |
| <b>December 31, 2019</b>       |                     |                                   |                                   |                                      |                   |
| Included in other assets:      |                     |                                   |                                   |                                      |                   |
| Third-party interest rate swap | \$ 116,874          |                                   |                                   |                                      | \$ 15             |
| Customer interest rate swap    | 1,738,675           |                                   |                                   |                                      | 67,303            |
| <b>Total</b>                   | <b>\$ 1,855,549</b> | 5.18                              | 4.50 %                            | 1 m Libor + 2.23%                    | <b>\$ 67,318</b>  |
| Included in other liabilities: |                     |                                   |                                   |                                      |                   |
| Third-party interest rate swap | \$ 1,738,675        |                                   |                                   |                                      | \$ 23,998         |
| Customer interest rate swap    | 116,874             |                                   |                                   |                                      | 316               |
| <b>Total</b>                   | <b>\$ 1,855,549</b> | 5.18                              | 4.50 %                            | 1 m Libor + 2.23%                    | <b>\$ 24,314</b>  |

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**(10) Income Taxes**

Actual income tax expense differs from the tax computed based on pre-tax income and the applicable statutory federal tax rate for the following reasons:

|  | For the three months ended |                  | For the six months ended |                  |
|--|----------------------------|------------------|--------------------------|------------------|
|  | June 30,                   |                  | June 30,                 |                  |
|  | 2020                       | 2019             | 2020                     | 2019             |
| Income before income tax expense                           | \$ 57,902                  | \$ 120,457       | \$ 64,007                | \$ 250,368       |
| Tax at federal statutory rate of 21%                       | 12,159                     | 25,296           | 13,441                   | 52,577           |
| State and local income taxes, net of federal tax benefit   | 1,091                      | 6,188            | 1,680                    | 12,878           |
| Tax exempt interest, net of disallowed interest            | (7,493)                    | (5,303)          | (14,902)                 | (10,556)         |
| BOLI income  | (1,034)                    | (893)            | (2,145)                  | (1,662)          |
| Low income housing tax credits and other benefits          | (10,458)                   | (4,814)          | (18,920)                 | (9,161)          |
| Low income housing investment amortization expense         | 8,987                      | 4,073            | 16,388                   | 7,883            |
| Tax rate adjustment benefit due to CARES Act NOL carryback | —                          | —                | (21,313)                 | —                |
| Uncertain tax position reserve                             | —                          | —                | 11,480                   | —                |
| Annual effective tax rate adjustment                       | 3,862                      | —                | 12,110                   | —                |
| Equity-based stock compensation benefit                    | 287                        | —                | 778                      | (106)            |
| FDIC insurance premium limitation                          | 315                        | 224              | 571                      | 478              |
| Other, net   | (606)                      | (774)            | (100)                    | 140              |
| Actual income tax expense (benefit)                        | <u>\$ 7,110</u>            | <u>\$ 23,997</u> | <u>\$ (932)</u>          | <u>\$ 52,471</u> |
| Effective income tax rate                                  | 12.3 %                     | 19.9 %           | (1.5)%                   | 21.0 %           |

Net deferred tax liabilities were \$56.1 million at June 30, 2020, compared to \$67.6 million at December 31, 2019. The change was mainly due to provision for credit loss expense recorded under CECL, which was offset by the removal of the deferred tax asset for the federal net operating loss which is being carried back under the provisions of the CARES Act. No valuation allowance was recorded against any deferred tax assets as of those dates, based upon management's consideration of historical and anticipated future pre-tax income, and the reversal periods for the items resulting in deferred tax assets and liabilities.

As of June 30, 2020, the accrual for unrecognized gross tax benefits was as follows:

|  | For the three months ended |             | For the six months ended |             |
|--|----------------------------|-------------|--------------------------|-------------|
|  | June 30,                   |             | June 30,                 |             |
|  | 2020                       | 2019        | 2020                     | 2019        |
| Uncertain tax positions beginning of period            | \$ 11,480                  | \$ —        | \$ —                     | \$ —        |
| Additions for tax positions related to prior tax years | —                          | —           | 11,480                   | —           |
| Interest expense in tax positions                      | 123                        | —           | 123                      | —           |
| Uncertain tax positions at June 30, 2020               | <u>\$ 11,603</u>           | <u>\$ —</u> | <u>\$ 11,603</u>         | <u>\$ —</u> |

Significant tax filings that remain open for examination include the following:

- Federal for tax years 2016 through present;
- New York State tax filings for tax years 2015 through present;
- New York City tax filings for tax years 2015 through present; and
- New Jersey State tax filings for tax years 2016 through present.

We are generally no longer subject to examination by federal, state or local taxing authorities for tax years prior to December 31, 2015.

Interest and/or penalties related to income taxes are reported as a component of other non-interest expense.

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**(11) Stock-Based Compensation**

The following table summarizes the activity in our stock-based compensation plan for the six months ended June 30, 2020:

|                                    | Shares available for grant | Non-vested stock awards/stock units outstanding |  | Stock options outstanding |                                 |
|------------------------------------|----------------------------|---|--|---------------------------|---------------------------------|
|                                    |                            | Number of shares                                | Weighted average grant date fair value | Number of shares          | Weighted average exercise price |
| Balance at January 1, 2020         | 3,347,036                  | 2,187,197                                       | \$ 20.96                               | 427,274                   | \$ 11.15                        |
| Granted                            | (1,184,289)                | 1,184,289                                       | 20.60                                  | —                         | —                               |
| Stock awards vested <sup>(1)</sup> | (39,504)                   | (610,011)                                       | 21.83                                  | —                         | —                               |
| Exercised                          | —                          | —   | —                                      | (51,000)                  | 10.09                           |
| Forfeited                          | 151,158                    | (121,005)                                       | 20.62                                  | (30,153)                  | 13.43                           |
| Canceled/expired                   | (30,153)                   | —   | —                                      | —                         | 13.43                           |
| Balance at June 30, 2020           | <u>2,244,248</u>           | <u>2,640,470</u>                                | <u>\$ 20.61</u>                        | <u>346,121</u>            | <u>\$ 11.11</u>                 |
| Exercisable at June 30, 2020       |                            |   |  | 346,121                   | \$ 11.11                        |

<sup>(1)</sup> The 39,504 shares vested represents performance shares that were granted in February 2017 to certain executives with a three-year measurement period. These shares vested in the first quarter of 2020 at 150.0% of the target amount granted, which resulted in these additional shares being awarded and additional expense of \$960 thousand which was recorded in the first quarter of 2020.

The total intrinsic value of outstanding in-the-money stock options and outstanding in-the-money exercisable stock options was \$398 thousand at June 30, 2020.

We use an option pricing model to estimate the grant date fair value of stock options granted. There were no stock options granted during the six months ended June 30, 2020 or June 30, 2019. We incurred no stock option expense during the three and six month periods ended June 30, 2020 and 2019.

Stock-based compensation expense is recognized ratably over the requisite service period for all awards. Stock-based compensation expense associated with non-vested stock awards and the related income tax benefit, and proceeds from stock option exercises are presented below:

|   | For the three months ended |          | For the six months ended |          |
|---|----------------------------|----------|--------------------------|----------|
|   | June 30,                   |          | June 30,                 |          |
|   | 2020                       | 2019     | 2020                     | 2019     |
| Non-vested stock awards/performance units | \$ 5,913                   | \$ 4,605 | \$ 11,919                | \$ 9,728 |
| Income tax benefit                        | \$ 739                     | \$ 967   | \$ 1,490                 | \$ 2,043 |
| Proceeds from stock option exercises      | \$ 101                     | \$ 2,268 | \$ 515                   | \$ 1,889 |

Unrecognized stock-based compensation expense as of June 30, 2020 was as follows:

|   | June 30, 2020    |
|---|------------------|
| Stock options                             | \$ —             |
| Non-vested stock awards/performance units | 38,979           |
| Total                                     | <u>\$ 38,979</u> |

The weighted average period over which unrecognized non-vested stock awards/performance units expense is expected to be recognized is 1.94 years.

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**(12) Other Non-Interest Expense, Other Assets and Other Liabilities****(a) Other Non-Interest Expense**

Other non-interest expense items for the six months ended June 30, 2020 and 2019, respectively, are presented in the following table:

|  | For the three months ended |                  | For the six months ended |                  |
|--|----------------------------|------------------|--------------------------|------------------|
|  | June 30,                   |                  | June 30,                 |                  |
|  | 2020                       | 2019             | 2020                     | 2019             |
| <b>Other non-interest expense:</b>       |                            |                  |                          |                  |
| Professional fees                        | \$ 5,458                   | \$ 6,380         | \$ 11,207                | \$ 10,528        |
| Depreciation expense on operating leases | 3,136                      | —                | 6,628                    | —                |
| Advertising and promotion                | 1,140                      | 1,384            | 3,123                    | 2,375            |
| Communications                           | 1,320                      | 1,710            | 2,950                    | 3,604            |
| Residential mortgage loans servicing     | 1,247                      | 1,383            | 2,624                    | 2,991            |
| Insurance & surety bond premium          | 1,158                      | 1,006            | 2,248                    | 2,068            |
| Operational losses                       | 609                        | 1,907            | 1,215                    | 2,490            |
| Loss on prepayment of FHLB borrowings    | 9,723                      | —                | 10,476                   | —                |
| Other                                    | 9,431                      | 6,304            | 15,907                   | 12,962           |
| <b>Total other non-interest expense</b>  | <b>\$ 33,222</b>           | <b>\$ 20,074</b> | <b>\$ 56,378</b>         | <b>\$ 37,018</b> |

**(b) Other Assets**

Other assets are presented in the following table. Significant components of the aggregate of other assets are presented separately.

|  | June 30,            | December 31,      |
|--|---------------------|-------------------|
|  | 2020                | 2019              |
| <b>Other assets:</b>                                       |                     |                   |
| Low income housing tax credit investments                  | \$ 399,336          | \$ 386,824        |
| Right of use asset for operating leases (see Note 15)      | 102,379             | 112,226           |
| Fair value of swaps (see Note 9)                           | 174,553             | 67,318            |
| Cash on deposit as swap collateral / net of settlement     | 95,510              | 93,606            |
| Operating leases - equipment and vehicles leased to others | 61,497              | 72,291            |
| Other asset balances                                       | 225,386             | 108,603           |
| <b>Total other assets</b>                                  | <b>\$ 1,058,661</b> | <b>\$ 840,868</b> |

Other asset items include cash on deposit as collateral for swaps, current income tax balances, prepaid insurance, prepaid property taxes, prepaid maintenance, accounts receivable and other miscellaneous assets.

**(c) Other Liabilities**

Other liabilities are presented in the following table. Significant components of the aggregate of other liabilities are presented separately.

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|  | June 30,<br>2020  | December 31,<br>2019 |
|--|-------------------|----------------------|
| <b>Other liabilities:</b>                                    |                   |                      |
| Commitment to fund low income housing tax credit investments | \$ 228,972        | \$ 264,930           |
| Lease liability (see Note 15)                                | 109,674           | 118,986              |
| Payroll finance and factoring liabilities                    | 92,659            | 105,972              |
| Swap liabilities (see Note 9)                                | 69,344            | 24,314               |
| Other liability balances                                     | 170,491           | 179,250              |
| <b>Total other liabilities</b>                               | <b>\$ 671,140</b> | <b>\$ 693,452</b>    |

Other liability balances include deferred taxes, accrued interest payable, accounts payable, accrued liabilities mainly for compensation and benefit plans and other miscellaneous liabilities.

### (13) Earnings Per Common Share

The following is a summary of the calculation of earnings per common share ("EPS"):

|   | For the three months ended |             | For the six months ended |             |
|---|----------------------------|-------------|--------------------------|-------------|
|   | June 30,                   |             | June 30,                 |             |
|   | 2020                       | 2019        | 2020                     | 2019        |
| Net income available to common stockholders   | \$ 48,820                  | \$ 94,473   | \$ 60,991                | \$ 193,921  |
| Weighted average common shares outstanding for computation of basic EPS   | 193,479,757                | 206,932,114 | 194,909,498              | 210,022,967 |
| Common-equivalent shares due to the dilutive effect of stock options and unvested performance share grants <sup>(1)</sup> | 124,674                    | 444,125     | 259,059                  | 396,458     |
| Weighted average common shares for computation of diluted EPS   | 193,604,431                | 207,376,239 | 195,168,557              | 210,419,425 |
| <b>EPS<sup>(2)</sup>:</b>   |                            |             |                          |             |
| Basic   | \$ 0.25                    | \$ 0.46     | \$ 0.31                  | \$ 0.92     |
| Diluted   | 0.25                       | 0.46        | 0.31                     | 0.92        |

<sup>(1)</sup> Represents incremental shares computed using the treasury stock method.

<sup>(2)</sup> Anti-dilutive shares are not included in determining diluted EPS. Anti-dilutive shares were 305,014 and 79,589 for the three and six months ended June 30, 2020, respectively. There were no anti-dilutive shares in the three and six months ending June 30, 2019.

### (14) Stockholders' Equity

#### (a) Regulatory Capital Requirements

Banks and bank holding companies are subject to various regulatory capital requirements administered by the 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 Company's and the Bank's Common Equity Tier 1 capital consists of common stock and related paid-in capital, net of treasury stock, and retained earnings. In connection with the adoption of the Basel III Capital Rules, we elected to opt-out of the requirement to include most components of accumulated other comprehensive income in Common Equity Tier 1 capital. Common Equity Tier 1 capital for both the Company and the Bank is reduced by goodwill and other intangible assets, net of associated deferred tax liabilities and subject to transition provisions.

Tier 1 capital includes Common Equity Tier 1 capital and additional Tier 1 capital. Total capital includes Tier 1 capital and Tier 2 capital. Tier 2 capital (as defined in the regulations) for both the Bank and us includes a permissible portion of the ACL and \$173.3 million and \$145.5 million of the Subordinated Notes, respectively. Tier 2 capital at the Company includes \$271.1 million of the Subordinated Notes - Company. During the final five years of the term of the Subordinated Notes, the permissible portion eligible for inclusion in Tier 2 capital decreases by 20% annually.

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The Common Equity Tier 1, Tier 1 and Total capital ratios are calculated by dividing the respective capital amounts by risk-weighted assets (“RWA”). RWA is calculated based on regulatory requirements and includes total assets, excluding goodwill and other intangible assets, allocated by risk weight category, and certain off-balance-sheet items, among other items.

As permitted by the interim final rule issued on March 27, 2020 by our federal regulatory agency, we elected the option to delay the estimated impact of the adoption of the CECL Standard in our regulatory capital for two years. This two-year delay is in addition to the three-year transition period the agency had already made available. The adoption will delay the effects of CECL on our regulatory capital for the next two years, after which the effects will be phased-in over a three-year period from January 1, 2022 through December 31, 2024. Under the interim final rule, the amount of adjustments to regulatory capital deferred until the phase-in period include both the initial impact of adoption of the CECL Standard at January 1, 2020 and 25% of subsequent changes in our ACL during each quarter of the two-year period ending December 31, 2021.

The following tables present actual and required capital ratios as of June 30, 2020 and December 31, 2019 for us and the Bank under the Basel III Capital Rules. The minimum required capital amounts presented as of June 30, 2020 and December 31, 2019 are based on the fully phased-in provisions of the Basel III Capital Rules. Capital levels required to be considered well-capitalized are based upon prompt corrective action regulations, as amended to reflect the changes under the Basel III Capital Rules.

|                              | Actual         |         | Minimum capital required - Basel III |         | Required to be considered well-capitalized |         |
|------------------------------|----------------|---------|--------------------------------------|---------|--|---------|
|                              | Capital amount | Ratio   | Capital amount                       | Ratio   | Capital amount                             | Ratio   |
| <b>June 30, 2020</b>         |                |         |                                      |         |  |         |
| Common equity tier 1 to RWA: |                |         |                                      |         |  |         |
| Sterling National Bank       | \$ 2,914,971   | 12.24 % | \$ 1,666,464                         | 7.00 %  | \$ 1,547,431                               | 6.50 %  |
| Sterling Bancorp             | 2,620,831      | 11.00   | 1,668,514                            | 7.00    | N/A  | N/A     |
| Tier 1 capital to RWA:       |                |         |                                      |         |  |         |
| Sterling National Bank       | 2,914,971      | 12.24 % | 2,023,564                            | 8.50 %  | 1,904,531                                  | 8.00 %  |
| Sterling Bancorp             | 2,757,972      | 11.57   | 2,026,053                            | 8.50    | N/A  | N/A     |
| Total capital to RWA:        |                |         |                                      |         |  |         |
| Sterling National Bank       | 3,298,179      | 13.85 % | 2,499,696                            | 10.50 % | 2,380,663                                  | 10.00 % |
| Sterling Bancorp             | 3,385,003      | 14.20   | 2,502,771                            | 10.50   | N/A  | N/A     |
| Tier 1 leverage ratio:       |                |         |                                      |         |  |         |
| Sterling National Bank       | 2,914,971      | 10.09 % | 1,155,035                            | 4.00 %  | 1,443,794                                  | 5.00 %  |
| Sterling Bancorp             | 2,757,972      | 9.51    | 1,159,510                            | 4.00    | N/A  | N/A     |



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|                              | Actual         |         | Minimum capital required - Basel III fully phased-in |         | Required to be considered well-capitalized |         |
|------------------------------|----------------|---------|--|---------|--|---------|
|                              | Capital amount | Ratio   | Capital amount                                       | Ratio   | Capital amount                             | Ratio   |
| <b>December 31, 2019</b>     |                |         |  |         |  |         |
| Common equity tier 1 to RWA: |                |         |  |         |  |         |
| Sterling National Bank       | \$ 2,882,208   | 12.32 % | \$ 1,637,001   | 7.00 %  | \$ 1,520,073                               | 6.50 %  |
| Sterling Bancorp             | 2,588,975      | 11.06   | 1,638,718  | 7.00    | N/A  | N/A     |
| Tier 1 capital to RWA:       |                |         |  |         |  |         |
| Sterling National Bank       | 2,882,208      | 12.32 % | 1,987,787  | 8.50 %  | 1,870,859                                  | 8.00 %  |
| Sterling Bancorp             | 2,726,556      | 11.65   | 1,989,872  | 8.50    | N/A  | N/A     |
| Total capital to RWA:        |                |         |  |         |  |         |
| Sterling National Bank       | 3,162,282      | 13.52 % | 2,455,502  | 10.50 % | 2,338,574                                  | 10.00 % |
| Sterling Bancorp             | 3,252,412      | 13.89   | 2,458,077  | 10.50   | N/A  | N/A     |
| Tier 1 leverage ratio:       |                |         |  |         |  |         |
| Sterling National Bank       | 2,882,208      | 10.11 % | 1,140,570  | 4.00 %  | 1,425,713                                  | 5.00 %  |
| Sterling Bancorp             | 2,726,556      | 9.55    | 1,141,603  | 4.00    | N/A  | N/A     |

The Bank and the Company are subject to the regulatory capital requirements administered by the FRB, and, for the Bank, the Office of the Comptroller of the Currency. Regulatory authorities can initiate certain mandatory actions if the Bank or the Company fails to meet the minimum capital requirements, which could have a direct material effect on our financial statements. As of June 30, 2020, and December 31, 2019, the most recent regulatory notifications categorized the Company and the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the classification.

#### (15) Commitments and Contingencies

##### (a) Off-Balance Sheet Financial Instruments

The contractual or notional amounts of these instruments, which reflect the extent of our involvement in particular classes of off-balance sheet financial instruments, are summarized as follows:

|                              | June 30,<br>2020 | December 31,<br>2019 |
|------------------------------|------------------|----------------------|
| Loan origination commitments | \$ 524,726       | \$ 565,392           |
| Unused lines of credit       | 1,656,854        | 1,532,702            |
| Letters of credit            | 260,708          | 307,287              |

We record ACL - off-balance sheet financial instrument exposures through a charge to other non-interest expense on our consolidated income statements. At June 30, 2020 and December 31, 2019, the ACL - off-balance sheet credit exposures was \$6.7 million and \$654 thousand, respectively, and was included in other liabilities in our consolidated balance sheets. For the six months ended June 30, 2020 and 2019, credit loss expense for off balance sheet financial instrument exposures was zero. In connection with the adoption of the CECL Standard, we increased the ACL - off-balance sheet credit exposures by \$6.1 million. We did not adjust this amount during the three and six months ended June 30, 2020 based on our review of quantitative and qualitative factors applicable to these financial instrument exposures.

##### (b) Leases

Future minimum payments for operating leases with initial or remaining terms of one year or more as of June 30, 2020 were as follows:

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|                                    |    |                |
|------------------------------------|----|----------------|
| Remainder of 2020                  | \$ | 9,541          |
| 2021                               |    | 17,967         |
| 2022                               |    | 16,195         |
| 2023                               |    | 14,693         |
| 2024                               |    | 12,894         |
| 2025                               |    | 10,261         |
| 2026 and thereafter                |    | 45,237         |
| Total lease payments               |    | 126,788        |
| Interest                           |    | 17,114         |
| Present value of lease liabilities | \$ | <u>109,674</u> |

**(c) Litigation**

We and the Bank are involved in a number of judicial proceedings concerning matters arising from our and its business activities. These include routine legal proceedings arising in the ordinary course of business. These proceedings also include actions brought against us and the Bank with respect to corporate matters and transactions in which we and the Bank are or were involved.

There can be no assurance as to the ultimate outcome of a legal proceeding; however, we and the Bank have generally denied liability in all significant litigation pending against us and intend to defend vigorously each case, other than matters that are determined appropriate to be settled. We and the Bank accrue a liability for legal claims when payments associated with the claims become probable and the costs can be reasonably estimated. The actual costs of resolving legal claims may be substantially higher or lower than the amounts accrued for those claims. At June 30, 2020 and December 31, 2019, we had no significant amounts accrued for litigation.

**(16) Fair Value Measurements**

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in an orderly transaction occurring in the principal or most advantageous market for such asset or liability between market participants on the measurement date. In estimating fair value, we use valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. Such valuation techniques are consistently applied. GAAP establishes a fair value hierarchy comprised of three levels of inputs that may be used to measure fair values.

Level 1 Inputs – Unadjusted quoted prices in active markets for identical assets and liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 Inputs – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (such as interest rates, volatilities, prepayment speeds, credit risk, etc.) or inputs that are derived principally from, or corroborated by, market data by correlation or other means.

Level 3 Inputs – Unobservable inputs for determining the fair value of assets or liabilities that reflect an entity's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

In general, fair value is based on quoted market prices, when available. If quoted market prices in active markets are not available, fair value is based on internally developed models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include amounts to reflect counterparty credit quality and our creditworthiness, among other things, as well as unobservable parameters. Any such valuation adjustments are applied consistently over time. Our valuation methodologies may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. While management believes its valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. Furthermore, the reported fair value amounts have not been comprehensively revalued since the presentation dates, and therefore, estimates of fair value after the

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balance sheet date may differ significantly from the amounts presented herein. A more detailed description of the valuation methodologies used for assets and liabilities measured at fair value is set forth below. Transfers between levels of the fair value hierarchy are recognized on the actual date of the event or circumstances that caused the transfer, which generally coincide with our monthly and/or quarterly valuation process.

**Investment Securities AFS**

The majority of our available for sale investment securities are reported at fair value utilizing Level 2 inputs. For these securities, we obtain fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the securities' terms and conditions, among other things.

We review the prices supplied by the independent pricing service, as well as their underlying pricing methodologies, for reasonableness and to ensure such prices are aligned with traditional pricing matrices. In general, we do not purchase investment securities that have a complicated structure. Our entire portfolio consists of traditional investments, nearly all of which are mortgage pass-through securities, state and municipal general obligation or revenue bonds, U.S. agency bullet and callable securities and corporate bonds. Pricing for such instruments is fairly generic and is easily obtained. From time to time, we validate, on a sample basis, prices supplied by the independent pricing service by comparison to prices obtained from third-party sources or derived using internal models.

As of June 30, 2020, management did not believe any of our securities are other-than-temporarily-impaired; however, management reviews all of our securities on at least a quarterly basis to assess whether impairment, if any, is other-than-temporarily-impaired.

**Derivatives**

The fair values of derivatives are based on valuation models using current observable market data (including interest rates and fees), the remaining terms of the agreements and the credit worthiness of the counterparty as of the measurement date, which are considered Level 2 inputs. Our derivatives are traded in an over-the-counter market where quoted market prices are not always available. Our derivatives at June 30, 2020 and December 31, 2019 consisted of interest rate swaps. See Note 9. "Derivatives" for additional information.

A summary of assets and liabilities at June 30, 2020 and December 31, 2019, respectively, measured at estimated fair value on a recurring basis, is as follows:

|   | June 30, 2020 |                |                |                |
|---|---------------|----------------|----------------|----------------|
|   | Fair value    | Level 1 inputs | Level 2 inputs | Level 3 inputs |
| <b>Assets:</b>                            |               |                |                |                |
| Investment securities available for sale: |               |                |                |                |
| Residential MBS:                          |               |                |                |                |
| Agency-backed                             | \$ 1,141,603  | \$ —           | \$ 1,141,603   | \$ —           |
| CMOs/Other MBS                            | 464,561       | —              | 464,561        | —              |
| Total residential MBS                     | 1,606,164     | —              | 1,606,164      | —              |
| Other securities:                         |               |                |                |                |
| Federal agencies                          | 146,917       | —              | 146,917        | —              |
| Corporate                                 | 469,394       | —              | 469,394        | —              |
| State and municipal                       | 398,149       | —              | 398,149        | —              |
| Total other securities                    | 1,014,460     | —              | 1,014,460      | —              |
| Total AFS                                 | 2,620,624     | —              | 2,620,624      | —              |
| Swaps                                     | 174,553       | —              | 174,553        | —              |
| Total assets                              | \$ 2,795,177  | \$ —           | \$ 2,795,177   | \$ —           |
| <b>Liabilities:</b>                       |               |                |                |                |
| Swaps                                     | \$ 69,344     | \$ —           | \$ 69,344      | \$ —           |
| Total liabilities                         | \$ 69,344     | \$ —           | \$ 69,344      | \$ —           |

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|   | December 31, 2019   |                |                     |                |
|---|---------------------|----------------|---------------------|----------------|
|   | Fair value          | Level 1 inputs | Level 2 inputs      | Level 3 inputs |
| <b>Assets:</b>                            |                     |                |                     |                |
| Investment securities available for sale: |                     |                |                     |                |
| Residential MBS:                          |                     |                |                     |                |
| Agency-backed                             | \$ 1,615,119        | \$ —           | \$ 1,615,119        | \$ —           |
| CMOs/Other MBS                            | 512,277             | —              | 512,277             | —              |
| Total residential MBS                     | 2,127,396           | —              | 2,127,396           | —              |
| Federal agencies                          | 201,138             | —              | 201,138             | —              |
| Corporate                                 | 320,922             | —              | 320,922             | —              |
| State and municipal                       | 446,192             | —              | 446,192             | —              |
| Total other securities                    | 968,252             | —              | 968,252             | —              |
| Total AFS                                 | 3,095,648           | —              | 3,095,648           | —              |
| Swaps                                     | 67,318              | —              | 67,318              | —              |
| Total assets                              | <u>\$ 3,162,966</u> | <u>\$ —</u>    | <u>\$ 3,162,966</u> | <u>\$ —</u>    |
| <b>Liabilities:</b>                       |                     |                |                     |                |
| Swaps                                     | \$ 24,314           | \$ —           | \$ 24,314           | \$ —           |
| Total liabilities                         | <u>\$ 24,314</u>    | <u>\$ —</u>    | <u>\$ 24,314</u>    | <u>\$ —</u>    |

The following categories of financial assets are not measured at fair value on a recurring basis, but are subject to fair value adjustments in certain circumstances.

#### Collateral Dependent Loans

For collateral dependent loans where we determined that foreclosure of the collateral is probable, or where the borrower is experiencing financial difficulty and we expect repayment of the loan to be provided substantially through the operation or sale of the collateral, the ACL is measured based on the difference between the fair value of the collateral and the amortized cost basis of the loan as of the measurement date. For real estate loans, the fair value of the loan's collateral is determined by third party appraisals, which are then adjusted for the estimated selling and closing costs related to liquidation of the collateral. The unobservable inputs may vary depending on the individual assets. We review third party appraisals for appropriateness and adjust the value downward to consider selling and closing costs, which generally range from 4% to 10% of the appraised value. For non-real estate loans, fair value of the loan's collateral may be determined using an appraisal, net book value per the borrower's financial statements, or aging reports, adjusted or discounted based on management's historical knowledge, changes in market conditions from the time of the valuation, and management's expertise and knowledge of the client and client's business.

|   | June 30, 2020    |                |                |                  |
|---|------------------|----------------|----------------|------------------|
|   | Fair value       | Level 1 inputs | Level 2 inputs | Level 3 inputs   |
| Traditional C&I   | \$ 9,814         | \$ —           | \$ —           | \$ 9,814         |
| Asset-based lending                                     | 7,869            | —              | —              | 7,869            |
| Factored receivables                                    | 6,320            | —              | —              | 6,320            |
| Equipment financing                                     | 2,931            | —              | —              | 2,931            |
| CRE   | 9,841            | —              | —              | 9,841            |
| Residential mortgage                                    | 2,924            | —              | —              | 2,924            |
| Consumer  | 1,711            | —              | —              | 1,711            |
| Total collateral dependent loans measured at fair value | <u>\$ 41,410</u> | <u>\$ —</u>    | <u>\$ —</u>    | <u>\$ 41,410</u> |

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**Impaired Loans**

Impaired loans subject to non-recurring fair value measurements were \$38.1 million at December 31, 2019.

|   | December 31, 2019 |                |                |                  |
|---|-------------------|----------------|----------------|------------------|
|   | Fair value        | Level 1 inputs | Level 2 inputs | Level 3 inputs   |
| Traditional C&I                             | \$ 14,515         | \$ —           | \$ —           | \$ 14,515        |
| Asset-based lending                         | 3,772             | —              | —              | 3,772            |
| Equipment financing                         | 1,794             | —              | —              | 1,794            |
| CRE   | 12,614            | —              | —              | 12,614           |
| Multi-family                                | 1,184             | —              | —              | 1,184            |
| Residential mortgage                        | 2,924             | —              | —              | 2,924            |
| Consumer                                    | 1,300             | —              | —              | 1,300            |
| Total impaired loans measured at fair value | <u>\$ 38,103</u>  | <u>\$ —</u>    | <u>\$ —</u>    | <u>\$ 38,103</u> |

**Fair Value of Financial Instruments**

The following is a summary of the carrying amounts and estimated fair value of financial assets and liabilities (none of which were held for trading purposes) as of June 30, 2020:

|  | June 30, 2020   |                |                |                |
|--|-----------------|----------------|----------------|----------------|
|  | Carrying amount | Level 1 inputs | Level 2 inputs | Level 3 inputs |
| <b>Financial assets:</b>                     |                 |                |                |                |
| Cash and cash equivalents                    | \$ 324,729      | \$ 324,729     | \$ —           | \$ —           |
| Securities AFS                               | 2,620,624       | —              | 2,620,624      | —              |
| Securities HTM                               | 1,924,955       | —              | 2,034,333      | —              |
| Loans held for sale                          | 44,437          | —              | 44,437         | —              |
| Portfolio loans, net                         | 21,929,778      | —              | —              | 21,984,602     |
| Accrued interest receivable on securities    | 28,602          | —              | 28,602         | —              |
| Accrued interest receivable on loans         | 72,694          | —              | —              | 72,694         |
| FHLB stock and FRB stock                     | 193,666         | —              | —              | —              |
| Swaps  | 174,553         | —              | 174,553        | —              |
| <b>Financial liabilities:</b>                |                 |                |                |                |
| Non-maturity deposits                        | 20,966,503      | 20,966,503     | —              | —              |
| Certificates of deposit                      | 2,634,118       | —              | 2,646,178      | —              |
| FHLB borrowings                              | 975,058         | —              | 983,650        | —              |
| Paycheck Protection Program Lending Facility | 568,350         | —              | 568,160        | —              |
| Other borrowings                             | 26,448          | —              | 26,448         | —              |
| Subordinated Notes - Company                 | 271,096         | —              | 262,870        | —              |
| Subordinated Notes - Bank                    | 173,307         | —              | 179,095        | —              |
| Mortgage escrow funds                        | 69,686          | —              | 69,686         | —              |
| Accrued interest payable on deposits         | 2,232           | —              | 2,232          | —              |
| Accrued interest payable on borrowings       | 3,686           | —              | 3,686          | —              |
| Swaps  | 69,344          | —              | 69,344         | —              |

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The following is a summary of the carrying amounts and estimated fair value of financial assets and liabilities (none of which were held for trading purposes) as of December 31, 2019:

|   | December 31, 2019 |                |                |                |
|---|-------------------|----------------|----------------|----------------|
|   | Carrying amount   | Level 1 inputs | Level 2 inputs | Level 3 inputs |
| <b>Financial assets:</b>                  |                   |                |                |                |
| Cash and cash equivalents                 | \$ 329,151        | \$ 329,151     | \$ —           | \$ —           |
| Securities available for sale             | 3,095,648         | —              | 3,095,648      | —              |
| Securities held to maturity               | 1,979,661         | —              | 2,053,191      | —              |
| Loans held for sale                       | 8,125             | —              | 8,125          | —              |
| Portfolio loans, net                      | 21,333,974        | —              | —              | 21,382,990     |
| Accrued interest receivable on securities | 29,308            | —              | 29,308         | —              |
| Accrued interest receivable on loans      | 71,004            | —              | —              | 71,004         |
| FHLB stock and FRB stock                  | 251,805           | —              | —              | —              |
| Swaps                                     | 67,318            | —              | 67,318         | —              |
| <b>Financial liabilities:</b>             |                   |                |                |                |
| Non-maturity deposits                     | 18,970,607        | 18,970,607     | —              | —              |
| Certificates of deposit                   | 3,448,051         | —              | 3,444,669      | —              |
| FHLB borrowings                           | 2,245,653         | —              | 2,248,851      | —              |
| Other borrowings                          | 22,678            | —              | 22,677         | —              |
| Senior Notes                              | 173,504           | —              | 173,733        | —              |
| Subordinated Notes                        | 444,123           | —              | 453,512        | —              |
| Mortgage escrow funds                     | 58,316            | —              | 58,315         | —              |
| Accrued interest payable on deposits      | 5,427             | —              | 5,427          | —              |
| Accrued interest payable on borrowings    | 8,629             | —              | 8,629          | —              |
| Swaps                                     | 24,314            | —              | 24,314         | —              |

**(17) Accumulated Other Comprehensive Income**

Components of accumulated other comprehensive income were as follows as of the dates shown below:

|   | June 30,<br>2020 | December 31,<br>2019 |
|---|------------------|----------------------|
| Net unrealized holding gain on available for sale securities              | \$ 121,807       | \$ 52,593            |
| Related income tax (expense)  | (33,667)         | (14,537)             |
| Available for sale securities, net of tax                                 | 88,140           | 38,056               |
| Net unrealized holding loss on securities transferred to held to maturity | (587)            | (744)                |
| Related income tax benefit  | 162              | 206                  |
| Securities transferred to held to maturity, net of tax                    | (425)            | (538)                |
| Net unrealized holding gain on retirement plans                           | 1,237            | 3,728                |
| Related income tax expense  | (342)            | (1,030)              |
| Retirement plans, net of tax  | 895              | 2,698                |
| Accumulated other comprehensive income                                    | <u>\$ 88,610</u> | <u>\$ 40,216</u>     |

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The following table presents the changes in each component of accumulated other comprehensive income (loss) ("AOCI") for the three and six months ended June 30, 2020 and 2019:

|   | Net unrealized<br>holding gain<br>(loss) on<br>available for<br>sale securities | Net unrealized<br>holding (loss)<br>gain on<br>securities<br>transferred to<br>held to maturity | Net unrealized<br>holding gain on<br>retirement plans | Total            |
|---|---|---|---|------------------|
| <b>For the three months ended June 30, 2020</b>   |   |   |   |                  |
| Balance beginning of the period   | \$ 67,249   | \$ (468)  | \$ 840  | \$ 67,621        |
| Other comprehensive income before reclassification  | 21,242  | —   | —   | 21,242           |
| Amounts reclassified from AOCI  | (351)   | 43  | 55  | (253)            |
| Total other comprehensive income  | 20,891  | 43  | 55  | 20,989           |
| Balance at end of period  | <u>\$ 88,140</u>  | <u>\$ (425)</u>   | <u>\$ 895</u>   | <u>\$ 88,610</u> |
| <b>For the three months ended June 30, 2019</b>   |   |   |   |                  |
| Balance beginning of the period   | \$ (19,577)   | \$ (797)  | \$ 13,764   | \$ (6,610)       |
| Other comprehensive income before reclassification  | 46,438  | —   | —   | 46,438           |
| Amounts reclassified from AOCI  | 382   | 88  | 48  | 518              |
| Total other comprehensive income  | 46,820  | 88  | 48  | 46,956           |
| Balance at end of period  | <u>\$ 27,243</u>  | <u>\$ (709)</u>   | <u>\$ 13,812</u>                                      | <u>\$ 40,346</u> |
| Location in consolidated income statements where reclassification from accumulated other comprehensive loss is included | Net gain<br>(loss) on sale<br>of securities                                     | Interest<br>income on<br>securities   | Other non-<br>interest<br>expense                     |                  |

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|   | Net unrealized<br>holding (loss)<br>gain on available<br>for sale securities | Net unrealized<br>holding (loss)<br>gain on securities<br>transferred to<br>held to maturity | Net unrealized<br>holding gain<br>(loss) on<br>retirement plans | Total       |
|---|--|--|---|-------------|
| <b>For the six months ended June 30, 2020</b>   |  |  |   |             |
| Balance beginning of the period   | \$ 38,056  | \$ (538)   | \$ 2,698  | \$ 40,216   |
| Other comprehensive income before reclassification                                      | 56,521   | —  | —   | 56,521      |
| Amounts reclassified from AOCI  | (6,437)  | 113  | (1,803)   | (8,127)     |
| Total other comprehensive income (loss)   | 50,084   | 113  | (1,803)   | 48,394      |
| Balance at end of period  | \$ 88,140  | \$ (425)   | \$ 895  | \$ 88,610   |
| <b>For the six months ended June 30, 2019</b>   |  |  |   |             |
| Balance beginning of the period   | \$ (75,077)  | \$ (2,546)   | \$ 11,678   | \$ (65,945) |
| Other comprehensive income before reclassification                                      | 100,946  | —  | —   | 100,946     |
| Securities reclassified from held to maturity to available for sale                     | (8,548)  | —  | —   | (8,548)     |
| Amounts reclassified from AOCI  | 9,922  | 1,837  | 2,134   | 13,893      |
| Total other comprehensive income  | 102,320  | 1,837  | 2,134   | 106,291     |
| Balance at end of period  | \$ 27,243  | \$ (709)   | \$ 13,812   | \$ 40,346   |
| Location in consolidated income statements where reclassification from AOCI is included | Net loss on sale of securities   | Interest income on securities  | Other non-interest expense                                      |             |



**(19) Recently Issued Accounting Standards Not Yet Adopted**

ASU 2019-12, “*Income Taxes (Topic 740)*” (“ASU 2019-12”). ASU 2019-12 simplifies the accounting for income taxes by removing certain exceptions and improves the consistent application of GAAP by clarifying and amending other existing guidance. ASU 2019-012 will be effective for us on January 1, 2021, and is not expected to have a material impact on our consolidated financial statements.

ASU 2020-01 “*Investments - Equity Securities (Topic 321), Investments - Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815)*” (“ASU 2020-01”) clarifies the interaction of the accounting for equity securities under Topic 321 and investments accounted for under the equity method of accounting in Topic 323, and the accounting for certain forward contracts and purchased options accounted for under Topic 815. ASU 2020-01 will be effective for us on January 1, 2021, and is not expected to have a material impact on our consolidated financial statements.

ASU 2020-04, “*Reference Rate Reform (Topic 848)*” (“ASU 2020-04”) provides optional expedients and exceptions for applying GAAP to loan and lease agreements, derivative contracts, and other transactions affected by the anticipated transition away from LIBOR toward new interest rate benchmarks. For transactions that are modified because of reference rate reform and that meet certain scope guidance (i) modifications of loan agreements should be accounted for by prospectively adjusting the effective interest rate and the modification will be considered “minor” so that any existing unamortized origination fees/costs would carry forward and continue to be amortized and (ii) modifications of lease agreements should be accounted for as a continuation of the existing agreement with no reassessments of the lease classification and the discount rate or remeasurements of lease payments that otherwise would be required for modifications not accounted for as separate contracts. ASU 2020-04 also provides numerous optional expedients for derivative accounting. ASU 2020-04 is effective March 12, 2020 through December 31, 2022. We may elect to apply ASU 2020-04 for contract modifications as of January 1, 2020, or prospectively from a date within an interim period that includes or is subsequent to March 12, 2020, up to the date that the financial statements are available to be issued. Once elected for a Topic or an Industry Subtopic within the Codification, the amendments in this ASU must be applied prospectively for all eligible contract modifications for that Topic or Industry Subtopic. We anticipate this ASU will simplify any modifications we execute between the selected start date (yet to be determined) and December 31, 2022 that are directly related to LIBOR transition by allowing prospective recognition of the continuation of the contract, rather than extinguishment of the old contract resulting in writing off unamortized fees/costs. We are evaluating the impacts of this ASU and have not yet determined whether LIBOR transition and this ASU will have a material effect on our business operations and consolidated financial statements.

**Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations****CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION**

We make statements in this report, and we may from time to time make other statements, regarding our outlook or expectations for earnings, revenues, expenses and/or other financial, business or strategic matters regarding or affecting us that are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, as amended. Forward-looking statements are typically identified by words such as “believe,” “expect,” “anticipate,” “intend,” “outlook,” “target,” “estimate,” “forecast,” “project,” by future conditional verbs such as “will,” “should,” “would,” “could” or “may,” or by variations of such words or by similar expressions. These statements are not historical facts, but instead represent our current expectations, plans or forecasts and are based on the beliefs and assumptions of management and the information available to management at the time that these disclosures were prepared.

Forward-looking statements are subject to numerous assumptions, risks (both known and unknown) and uncertainties, and other factors which change over time. Forward-looking statements speak only as of the date they are made. We do not assume any duty and do not undertake to update our forward-looking statements. Because forward-looking statements are subject to assumptions, risks, uncertainties, and other factors, actual results or future events could differ, possibly materially, from those that we anticipated in our forward-looking statements, and future results could differ materially from our historical performance.

The factors described in Part II. Item 1A. Risk Factors of this report or otherwise described in our filings with the SEC, provide examples of risks, uncertainties and events that may cause our actual results to differ materially from the expectations expressed in our forward-looking statements, including, but not limited to:

- our ability to successfully implement growth and strategic initiatives, and to integrate and fully realize cost savings and other benefits we estimate in connection with acquisitions and limit business disruption arising therefrom;
- oversight of the Bank by the Consumer Financial Protection Bureau;
- adverse publicity, regulatory actions or litigation with respect to us or other well-known companies and the financial services industry in general and a failure to satisfy regulatory standards;

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- the effects of and changes in monetary and policies of the Board of Governors of the Federal Reserve System and the U.S. Government, respectively;
- our ability to make accurate assumptions and judgments about an appropriate level of allowance for loan losses and the collectibility of our loan portfolio, including changes in the level and trend of loan delinquencies and write-offs that may lead to increased losses and non-performing assets in our loan portfolio, result in our allowance for loan losses not being adequate to cover actual losses, and/or require us to materially increase our reserves;
- our use of estimates in determining the fair value of certain of our assets, which estimates may prove to be incorrect and result in significant declines in valuation;
- our ability to manage changes in market interest rates, which could adversely affect our financial condition and results of operations;
- our ability to capitalize on our substantial investments in our information technology and operational infrastructure and systems;
- changes in other economic, competitive, governmental, regulatory and technological factors affecting our markets, operations, pricing, products, services and fees;
- effects of the novel coronavirus disease (COVID-19), which include, but are not limited to, the federal, state and local government actions and reactions to COVID-19, the health of our colleagues and that of our clients, the continuity of our, our clients' and our third party providers' operations, the increased likelihood of cyber and payment fraud risk, the continued ability of our borrowers to repay their loans throughout and following the pandemic, the potential decline in collateral values resulting from COVID-19 and its effects, and the resulting impact upon our financial position, results of operations, cash flows and our outlook; and
- our success at managing the risks involved in the foregoing and managing our business.

These risks and uncertainties should be considered in evaluating forward-looking statements, and undue reliance should not be placed on such statements.

### **Impact of COVID-19**

The COVID-19 pandemic has resulted in, and is likely to continue to result in, significant economic disruption affecting our business and the business of our clients. As of the date of this filing, significant uncertainty exists concerning the magnitude of the impact and duration of the COVID-19 pandemic.

Our consolidated financial statements reflect estimates and assumptions we make that affect the reported amounts of assets and liabilities, including the amount of the ACL we established. We considered the impact of COVID-19 on the assumptions and estimates used which had a material adverse effect on our provision for credit losses. The COVID-19 pandemic has also resulted in a significant amount of client requests for forbearance, which are in process of review and implementation.

### **LIBOR Transition and Phase-Out**

We have a significant amount of loans, borrowings and swaps that are tied to LIBOR benchmark interest rates. It is anticipated that the LIBOR index will be phased-out by the end of 2021 and the Federal Reserve Bank of New York has established the Secured Overnight Financing Rate ("SOFR") as its recommended alternative to LIBOR. We have created a sub-committee of our Asset Liability Management Committee to address LIBOR transition and phase-out issues. This committee includes personnel from legal, loan operations, risk, IT, credit, business intelligence, treasury, corporate banking, marketing, audit, accounting and corporate development. We are currently reviewing loan documentation, technology systems and procedures we will need to implement for the transition.

### **General**

The following Management's Discussion and Analysis of Financial Condition and Results of Operations is intended to assist the reader in understanding our financial condition and results of operations. The following discussion and analysis should be read in conjunction with our unaudited consolidated financial statements and the accompanying notes included in Part I, Item 1 of this report and with our audited consolidated financial statements, including the accompanying notes, and Management's Discussion and Analysis of Financial Condition and Results of Operations included in our 2019 Form 10-K. Operating results discussed herein are not necessarily indicative of the results of any future period.

Tax equivalent adjustments are the result of increasing the income from tax exempt securities by an amount equal to the federal taxes that would be paid if the income were fully taxable based on a 21% effective income tax rate.

Dollar amounts in tables are stated in thousands, except for share and per share amounts and ratios.

## STERLING BANCORP AND SUBSIDIARIES

### Overview and Management Strategy

The Bank operates as a regional bank providing a broad offering of deposit, lending and wealth management products to commercial, consumer and municipal clients in our market area.

Our primary strategic objective is to drive positive operating leverage, which we believe will allow us to generate sustainable growth in revenues and earnings over time. We define operating leverage as the ratio of growth in adjusted total revenue divided by growth in adjusted total operating expenses (a reconciliation of non-GAAP financial measures is included beginning on page 73). To achieve this goal, we focus on the following initiatives:

- Target specific “high value” client segments and geographic markets in which we have competitive advantages.
- Deploy a single point of contact, relationship-based distribution strategy through our commercial banking teams and financial centers.
- Continuously expand and refine our delivery and distribution channels by rationalizing our investments in businesses that do not meet our risk-adjusted return targets and re-allocating our capital and resources to other businesses that are in-line with our commercial banking strategy and risk-adjusted return targets.
- Maximize efficiency through a technology enabled, low-cost operating platform and by controlling operating costs.
- Create a high productivity culture through differentiated compensation programs based on a pay-for-performance philosophy.
- Maintain strong risk management systems and proactively manage enterprise risk.

The Bank targets the following geographic markets: (i) the New York Metro Market, which includes Manhattan and Long Island; and (ii) the New York Suburban Market, which includes Rockland, Orange, Sullivan, Ulster, Putnam and Westchester Counties in New York and Bergen County in New Jersey. The Bank also originates loans and deposits in select markets nationally through our asset-based lending, payroll finance, warehouse lending, factored receivables, equipment finance and public sector finance businesses (collectively, our commercial finance businesses). We believe the Bank operates in an attractive footprint that presents us with significant opportunities to execute our strategy of targeting small and middle market commercial clients and affluent consumers.

We deploy a team-based distribution strategy in which clients are served by a focused and experienced group of relationship managers who are responsible for all aspects of the client relationship and delivery of our products and services. Our commercial banking teams generate significant originations of loans and deposits, which are augmented by strategic portfolio acquisitions. As of June 30, 2020, we had 30 commercial banking teams and 78 full service financial centers. We currently anticipate that we will increase our number of commercial banking teams by three to five annually, while reducing our financial centers as we continue to execute our real estate and financial center consolidation strategy.

### Recent Developments

Effective January 1, 2020, we adopted the CECL Standard which increased our ACL - loans by \$90.6 million, our ACL - HTM securities by \$796 thousand and our ACL - off-balance sheet credit exposures by \$6.1 million. Net of tax, our equity was reduced \$54.3 million on January 1, 2020, which was presented as a cumulative effect of a change in accounting principle.

Earnings performance for the second quarter of 2020 included reported net income available to common stockholders of \$48.8 million, or \$0.25 per diluted share, and adjusted net income available to common stockholders of \$56.9 million, or \$0.29 per diluted share. Our provision for credit losses expense was \$56.6 million. As of June 30, 2020, our ACL was \$365.5 million, which represented 1.64% of total loans.

At June 30, 2020, total portfolio loans were \$22.3 billion, an increase of \$855.1 million from December 31, 2019. We grew commercial loan balances by \$1.1 billion relative to December 31, 2019. The increase in commercial loans was offset by \$271.9 million in run-off of residential mortgage loans. Growth in commercial loans included \$649.4 million of loans funded under the SBA PPP. At June 30, 2020, we had \$1.7 billion of loans subject to pandemic-related payment deferral agreements.

## STERLING BANCORP AND SUBSIDIARIES

Total deposits were \$23.6 billion at June 30, 2020, an increase of \$1.2 billion from December 31, 2019. Our loans to deposits ratio was 94.5% at quarter end. Our cost of interest-bearing deposits declined 39 basis points and our cost of total deposits declined 33 basis points relative to the linked quarter. In the six months ended June 30, 2020, FHLB borrowings declined \$1.3 billion and brokered deposits declined \$301.4 million. A portion of the decline in FHLB borrowings was replaced by \$568.3 million of borrowings under the PPP Liquidity Facility (“PPPLF”). The PPPLF is a facility with the FRB to extend credit to financial institutions, such as the Bank, that originate PPP loans. We anticipate the current interest rate environment and pricing strategies we have implemented will allow us to continue to meaningfully reduce the cost of our total funding liabilities.

In the first six months of 2020, we repurchased 4,900,759 shares of common stock at a weighted average price of \$16.53 per share, for total consideration of \$81.0 million. Under our approved repurchase program, we have 6.7 million shares remaining for repurchase at June 30, 2020. We have temporarily suspended our share repurchase activity until the long-term impact of the pandemic becomes clearer.

Our net interest margin and net interest income were pressured by the decrease in interest rates and its impact on our floating rate loans indexed to LIBOR and prime rates. Our tax equivalent net interest margin excluding purchase accounting adjustments was 3.05% and our reported net interest margin on a tax equivalent basis was 3.20%. Our net interest income was \$213.3 million, which was impacted by a decrease in accretion income on acquired loans of \$13.7 million and a decrease in yields on our floating rate loans.

Our adjusted non-interest expenses were \$107.8 million in the quarter, an increase of \$65 thousand over the quarter ended June 30, 2019. In the second quarter of 2020, we incurred \$5.1 million of COVID-19 related expenses related to compensation, occupancy, foreclosed property and charitable contributions. As a result, we anticipate non-interest expenses will decline in the third quarter of 2020 relative to the second quarter. Our reported operating efficiency ratio was 52.2% and our adjusted operating efficiency ratio was 45.1% for the quarter.

### Critical Accounting Policies

Our accounting and reporting policies are prepared in accordance with GAAP and conform to general practices within the banking industry. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. While we base estimates on historical experience, current information and other factors deemed to be relevant, actual results could differ from those estimates. We consider accounting estimates to be critical to reported financial results if (i) the accounting estimate requires management to make assumptions about matters that are highly uncertain; and (ii) different estimates that management reasonably could have used for the accounting estimate in the current period, or changes in the accounting estimate that are reasonably likely to occur from period to period, could have a material impact on our financial statements. Accounting policies related to the ACL, business combinations, and deferred income taxes are considered to be critical, as these policies involve considerable subjective judgment and estimation by management. For additional information regarding critical accounting policies, refer to Note 1. “Basis of Financial Statement Presentation and Summary of Significant Accounting Policies” in the notes to consolidated financial statements included elsewhere in this report and the sections captioned “Critical Accounting Policies” and “Allowance for Loan Losses” in Management’s Discussion and Analysis of Financial Condition and Results of Operations included in the 2019 Form 10-K.

**ACL - Loans.** We consider the methodology for determining the ACL to be a critical accounting policy due to the high degree of judgment involved, the subjectivity of the assumptions utilized and the potential for changes in the economic environment that could result in changes to the amount of the ACL - loans considered necessary. The balance recorded for the allowance represents our estimate of the net amount not expected to be collected on portfolio loans at the balance sheet date. The ACL - loans is mainly comprised of reserves on individual assets estimated by our valuation models. Mortgage warehouse loans and certain consumer loans are evaluated on a pool level basis as each portfolio has common risk characteristics. Generally, all other portfolio loans are evaluated individually for expected credit loss. In addition to quantitative amounts as determined by our valuation models, we apply a qualitative factors overlay that incorporates trends and conditions and factors that the models may not fully capture in our judgement. Our methodologies for estimating the ACL - loans considers available relevant information about the collectibility of cash flows, including information about past events, current conditions and reasonable and supportable forecasts. See Note 1. “Basis of Financial Statement Presentation - (e) Accounting Principle Change and Summary of Significant Accounting Policies” for further discussion of the risk factors we considered in the determination of the allowance for credit losses - loans.

**Goodwill and Intangible Assets.** We record goodwill as the excess of the purchase price in a business combination over the fair value of the identifiable net assets acquired in accordance with GAAP. Typically we perform our annual intangible assets impairment test in the fourth quarter. Due to the impact of the pandemic, we performed the annual intangible assets impairment test during the three months ended June 30, 2020. We engaged an independent third-party to evaluate the fair value of the Company compared to its carrying value.

## STERLING BANCORP AND SUBSIDIARIES

The results concluded that goodwill and intangible asset impairment did not exist. Fair value was estimated mainly using a discounted cash flow analysis. Significant assumptions included in the discounted cash flow analysis were the following:

- management financial projections for the period 2020 through 2024;
- earnings retention based on maintaining minimum tangible common capital ratio of 8.00%;
- operating expense cost savings estimated at 10.0%
- capitalization rate of 9.5% based on a 12.5% discount rate less estimated terminal growth of 3.0%.

See Note 6. "Goodwill and Other Intangible Assets" for additional information regarding our goodwill impairment test. We will continue to monitor and evaluate the impact of COVID-19, economic conditions and other triggering events that may indicate an impairment of goodwill in the future. In the event that we conclude that all or a portion of our goodwill or intangible assets are impaired, a non-cash charge for the amount of such impairment would be recorded to earnings. Such a charge would have no impact on tangible capital or regulatory capital ratios.

### **Financial Impact of Recent Acquisitions**

The balances of the commercial loan portfolio acquired in the Woodforest Acquisition were included in our consolidated balance sheets as of February 28, 2019, and the operating results from those assets were included in our results of operations from that day forward.

The balances of the commercial loan portfolio acquired in the Santander Portfolio Acquisition were included in our consolidated balance sheets as of November 29, 2019, and the operating results from those assets were included in our results from operations from that day forward.

Selected financial condition data, statement of operations data, per share data, performance ratios, capital ratios, and asset quality data and ratios for the comparable periods are presented as follows:

**STERLING BANCORP AND SUBSIDIARIES**

|   | At or for the three months<br>ended June 30, |              | At or for the six months ended<br>June 30, |              |
|---|--|--------------|--|--------------|
|   | 2020   | 2019         | 2020                                       | 2019         |
| <b>End of period balances:</b>                            |  |              |  |              |
| Total securities  | \$ 4,548,078                                 | \$ 5,858,865 | \$ 4,548,078                               | \$ 5,858,865 |
| Portfolio loans   | 22,295,267                                   | 20,370,306   | 22,295,267                                 | 20,370,306   |
| Total assets  | 30,839,893                                   | 30,237,545   | 30,839,893                                 | 30,237,545   |
| Non-interest bearing deposits                             | 5,407,728                                    | 4,494,802    | 5,407,728                                  | 4,494,802    |
| Interest bearing deposits                                 | 18,192,893                                   | 16,453,662   | 18,192,893                                 | 16,453,662   |
| Total deposits  | 23,600,621                                   | 20,948,464   | 23,600,621                                 | 20,948,464   |
| Borrowings  | 2,014,259                                    | 4,133,986    | 2,014,259                                  | 4,133,986    |
| Stockholders' equity                                      | 4,484,187                                    | 4,459,158    | 4,484,187                                  | 4,459,158    |
| Tangible common stockholders' equity ("TCE") <sup>1</sup> | 2,561,599                                    | 2,543,399    | 2,561,599                                  | 2,543,399    |
| <b>Average balances:</b>                                  |  |              |  |              |
| Total securities  | \$ 4,630,056                                 | \$ 5,883,269 | \$ 4,838,315                               | \$ 6,107,734 |
| Total loans <sup>2</sup>                                  | 21,940,636                                   | 19,912,839   | 21,573,406                                 | 20,161,178   |
| Total assets  | 30,732,914                                   | 29,666,951   | 30,608,673                                 | 30,201,974   |
| Non-interest bearing deposits                             | 5,004,907                                    | 4,218,000    | 4,675,713                                  | 4,232,613    |
| Interest bearing deposits                                 | 18,459,030                                   | 16,930,872   | 18,402,541                                 | 16,999,424   |
| Total deposits and mortgage escrow                        | 23,463,937                                   | 21,148,872   | 23,078,254                                 | 21,232,037   |
| Borrowings  | 2,101,016                                    | 3,544,661    | 2,340,969                                  | 4,002,872    |
| Stockholders' equity                                      | 4,464,403                                    | 4,423,910    | 4,485,470                                  | 4,419,703    |
| TCE <sup>1</sup>  | 2,538,842                                    | 2,504,883    | 2,557,700                                  | 2,512,695    |
| <b>Selected operating data:</b>                           |  |              |  |              |
| Total interest and dividend income                        | \$ 253,226                                   | \$ 302,457   | \$ 526,753                                 | \$ 611,857   |
| Total interest expense                                    | 39,927                                       | 70,618       | 101,682                                    | 144,512      |
| Net interest income                                       | 213,299                                      | 231,839      | 425,071                                    | 467,345      |
| Provision for credit losses                               | 56,606                                       | 11,500       | 194,886                                    | 21,700       |
| Net interest income after provision for credit losses     | 156,693                                      | 220,339      | 230,185                                    | 445,645      |
| Total non-interest income                                 | 26,090                                       | 27,058       | 73,416                                     | 46,655       |
| Total non-interest expense                                | 124,881                                      | 126,940      | 239,594                                    | 241,932      |
| Income before income tax expense                          | 57,902                                       | 120,457      | 64,007                                     | 250,368      |
| Income tax (benefit) expense                              | 7,110  | 23,997       | (932)                                      | 52,471       |
| Net income  | 50,792                                       | 96,460       | 64,939                                     | 197,897      |
| Preferred stock dividend                                  | 1,972  | 1,987        | 3,948                                      | 3,976        |
| Net income available to common stockholders               | \$ 48,820                                    | \$ 94,473    | \$ 60,991                                  | \$ 193,921   |
| <b>Per share data:</b>                                    |  |              |  |              |
| Reported basic EPS (GAAP)                                 | \$ 0.25                                      | \$ 0.46      | \$ 0.31                                    | \$ 0.92      |
| Reported diluted EPS (GAAP)                               | 0.25   | 0.46         | 0.31                                       | 0.92         |
| Adjusted diluted EPS <sup>1</sup> (non-GAAP)              | 0.29   | 0.51         | 0.28                                       | 1.01         |
| Dividends declared per common share                       | 0.07   | 0.07         | 0.14                                       | 0.14         |
| Book value per share                                      | 22.35  | 21.06        | 22.35                                      | 21.06        |
| Tangible book value per common share <sup>1</sup>         | 13.17  | 12.40        | 13.17                                      | 12.40        |

See legend on following page.

**STERLING BANCORP AND SUBSIDIARIES**

|   | At or for the three months ended<br>June 30, |             | At or for the six months ended June<br>30, |             |
|---|--|-------------|--|-------------|
|   | 2020   | 2019        | 2020                                       | 2019        |
| <b>Common shares outstanding:</b>                       |  |             |  |             |
| Shares outstanding at period end                        | 194,458,805                                  | 205,187,243 | 194,458,805                                | 205,187,243 |
| Weighted average shares basic                           | 193,479,757                                  | 206,932,114 | 194,909,498                                | 210,022,967 |
| Weighted average shares diluted                         | 193,604,431                                  | 207,376,239 | 195,168,557                                | 210,419,425 |
| <b>Other data:</b>                                      |  |             |  |             |
| Full time equivalent employees at period end            | 1,617  | 1,820       | 1,617                                      | 1,820       |
| Financial centers at period end                         | 78   | 97          | 78   | 97          |
| <b>Performance ratios:</b>                              |  |             |  |             |
| Return on average assets                                | 0.64 %                                       | 1.28 %      | 0.40 %                                     | 1.29 %      |
| Return on average equity                                | 4.40   | 8.57        | 2.73                                       | 8.85        |
| Reported return on average tangible assets <sup>1</sup> | 0.68   | 1.36        | 0.42                                       | 1.38        |
| Adjusted return on average tangible assets <sup>1</sup> | 0.79   | 1.51        | 0.38                                       | 1.51        |
| Reported return on average TCE <sup>1</sup>             | 7.73   | 15.13       | 4.78                                       | 15.56       |
| Adjusted return on average TCE <sup>1</sup>             | 9.02   | 16.83       | 4.21                                       | 17.05       |
| Reported operating efficiency <sup>1</sup>              | 52.2   | 49.0        | 48.1                                       | 47.1        |
| Adjusted operating efficiency <sup>1</sup>              | 45.1   | 40.9        | 43.7                                       | 40.7        |
| Net interest margin-GAAP                                | 3.15   | 3.53        | 3.15                                       | 3.50        |
| Net interest margin-tax equivalent <sup>3</sup>         | 3.20   | 3.58        | 3.20                                       | 3.56        |
| <b>Capital ratios (Company)<sup>4</sup>:</b>            |  |             |  |             |
| Tier 1 leverage ratio                                   | 9.51 %                                       | 9.57 %      | 9.51 %                                     | 9.57 %      |
| Common equity Tier 1 capital ratio                      | 11.00  | 11.52       | 11.00                                      | 11.52       |
| Tier 1 risk-based capital ratio                         | 11.57  | 12.15       | 11.57                                      | 12.15       |
| Total risk-based capital ratio                          | 14.20  | 13.30       | 14.20                                      | 13.30       |
| Tangible equity to tangible assets                      | 9.29   | 9.42        | 9.29                                       | 9.42        |
| Tangible common equity to tangible assets <sup>1</sup>  | 8.82   | 8.94        | 8.82                                       | 8.94        |
| <b>Regulatory capital ratios (Bank)<sup>4</sup>:</b>    |  |             |  |             |
| Tier 1 leverage ratio                                   | 10.09 %                                      | 9.98 %      | 10.09 %                                    | 9.98 %      |
| Tier 1 risk-based capital ratio                         | 12.24  | 12.67       | 12.24                                      | 12.67       |
| Total risk-based capital ratio                          | 13.85  | 13.94       | 13.85                                      | 13.94       |
| <b>Asset quality data and ratios:</b>                   |  |             |  |             |
| Allowance for credit losses                             | \$ 365,489                                   | \$ 104,664  | \$ 365,489                                 | \$ 104,664  |
| Non-performing loans ("NPLs")                           | 260,605                                      | 192,647     | 260,605                                    | 192,647     |
| Non-performing assets ("NPAs")                          | 269,270                                      | 206,275     | 269,270                                    | 206,275     |
| Net charge-offs   | 17,561                                       | 5,796       | 24,516                                     | 12,713      |
| NPAs to total assets                                    | 0.87 %                                       | 0.68 %      | 0.87 %                                     | 0.68 %      |
| NPLs to total loans <sup>5</sup>                        | 1.17   | 0.95        | 1.17                                       | 0.95        |
| Allowance for loan losses to non-performing loans       | 140.25                                       | 54.33       | 140.25                                     | 54.33       |
| Allowance for loan losses to total loans <sup>4</sup>   | 1.64   | 0.51        | 1.64                                       | 0.51        |
| Annualized net charge-offs to average loans             | 0.32   | 0.12        | 0.24                                       | 0.13        |

<sup>1</sup> See a reconciliation of as reported financial measures to as adjusted (non-GAAP) financial measures beginning on page 73 below under the caption "Supplemental Reporting of Non-GAAP Financial Measures."

<sup>2</sup> Includes loans held for sale but excludes the allowance for credit losses.

<sup>3</sup> Tax equivalent basis represents interest income earned on municipal securities divided by the applicable Federal tax rate of 21%.

<sup>4</sup> We elected the five-year capital phase-in option effective June 30, 2020.

<sup>5</sup> Total loans excludes loans held for sale.

## STERLING BANCORP AND SUBSIDIARIES

### Results of Operations

For the three months ended June 30, 2020, we reported net income available to common stockholders of \$48.8 million, or \$0.25 per diluted common share, compared to net income available to common stockholders of \$94.5 million, or \$0.46 per diluted common share, for the three months ended June 30, 2019.

Details of the changes in the various components of net income available to common stockholders are further discussed below.

*Net Interest Income* is the difference between interest income on earning assets, such as loans and securities, and interest expense on liabilities, such as deposits and borrowings, which are used to fund those assets. Net interest income is our largest source of revenue, representing 89.1% and 89.5% of total revenue in the three months ended June 30, 2020 and 2019, respectively. Net interest margin is the ratio of taxable equivalent net interest income to average earning assets for the period. The level of interest rates and the volume and mix of earning assets and interest bearing liabilities impact net interest income and net interest margin.

We are primarily funded by core deposits, which include retail, commercial and municipal transaction deposits, money market and savings accounts and certificates of deposit accounts, including reciprocal brokered deposits through the Promontory Interfinancial Network, but excluding other brokered and wholesale deposits. As of June 30, 2020, we considered 92.8% of our total deposits to be core deposits compared to 95.0% at June 30, 2019. Non-interest bearing demand deposits were \$5.4 billion of our total deposits at June 30, 2020, compared to \$4.5 billion at June 30, 2019.

The following tables set forth average balances, interest, average yields and costs, and certain other information for the periods indicated. All average balances are daily average balances. Non-accrual loans were included in the computation of the respective average balance of the particular loan type, but have been reflected in the table as loans carrying a zero yield. The yields set forth below include the effect of deferred fees, discounts and premiums that are amortized or accreted to interest income or expense.



**STERLING BANCORP AND SUBSIDIARIES**

For the three months ended June 30,

|  | 2020                 |                   |               | 2019                 |                   |               |
|--|----------------------|-------------------|---------------|----------------------|-------------------|---------------|
|  | Average balance      | Interest          | Yield/Rate    | Average balance      | Interest          | Yield/Rate    |
| <b>Interest earning assets:</b>  |                      |                   |               |                      |                   |               |
| Traditional C&I and commercial finance loans   | \$ 8,791,024         | \$ 84,192         | 3.85 %        | \$ 7,203,215         | \$ 97,260         | 5.42 %        |
| CRE (includes multi-family)  | 10,404,643           | 106,408           | 4.11          | 9,486,333            | 115,759           | 4.89          |
| ADC  | 519,517              | 5,762             | 4.46          | 307,290              | 4,664             | 6.09          |
| Commercial loans   | 19,715,184           | 196,362           | 4.01          | 16,996,838           | 217,683           | 5.14          |
| Consumer loans   | 219,052              | 2,233             | 4.10          | 280,098              | 4,013             | 5.75          |
| Residential mortgage loans   | 2,006,400            | 21,309            | 4.25          | 2,635,903            | 36,587            | 5.55          |
| <b>Total gross loans</b> <sup>1</sup>  | <b>21,940,636</b>    | <b>219,904</b>    | <b>4.03</b>   | <b>19,912,839</b>    | <b>258,283</b>    | <b>5.20</b>   |
| Securities taxable   | 2,507,384            | 18,855            | 3.02          | 3,453,858            | 24,632            | 2.86          |
| Securities non-taxable   | 2,122,672            | 16,242            | 3.06          | 2,429,411            | 18,257            | 3.01          |
| Interest earning deposits  | 455,626              | 146               | 0.13          | 289,208              | 1,295             | 1.80          |
| FRB and FHLB stock   | 213,796              | 1,490             | 2.80          | 291,737              | 3,824             | 5.26          |
| Total securities and other earning assets  | 5,299,478            | 36,733            | 2.79          | 6,464,214            | 48,008            | 2.98          |
| <b>Total interest earning assets</b>   | <b>27,240,114</b>    | <b>256,637</b>    | <b>3.79</b>   | <b>26,377,053</b>    | <b>306,291</b>    | <b>4.66</b>   |
| Non-interest earning assets  | 3,492,800            |                   |               | 3,289,898            |                   |               |
| <b>Total assets</b>  | <b>\$ 30,732,914</b> |                   |               | <b>\$ 29,666,951</b> |                   |               |
| <b>Interest bearing liabilities:</b>   |                      |                   |               |                      |                   |               |
| Interest bearing demand deposits   | \$ 4,766,298         | \$ 4,806          | 0.41 %        | \$ 4,399,296         | \$ 11,884         | 1.08 %        |
| Savings deposits <sup>2</sup>  | 2,890,402            | 2,418             | 0.34          | 2,448,132            | 1,883             | 0.31          |
| Money market deposits  | 8,035,750            | 11,711            | 0.59          | 7,538,890            | 23,020            | 1.22          |
| Certificates of deposit  | 2,766,580            | 9,175             | 1.33          | 2,544,554            | 11,342            | 1.79          |
| <b>Total interest bearing deposits</b>   | <b>18,459,030</b>    | <b>28,110</b>     | <b>0.61</b>   | <b>16,930,872</b>    | <b>48,129</b>     | <b>1.14</b>   |
| Senior Notes   | 127,862              | 944               | 2.95          | 173,901              | 1,365             | 3.14          |
| Other borrowings   | 1,528,844            | 5,684             | 1.50          | 3,197,738            | 18,768            | 2.35          |
| Subordinated Notes - Bank  | 173,265              | 2,361             | 5.45          | 173,022              | 2,356             | 5.45          |
| Subordinated Notes - Company   | 271,045              | 2,828             | 4.17          | —                    | —                 | —             |
| <b>Total borrowings</b>  | <b>2,101,016</b>     | <b>11,817</b>     | <b>2.26</b>   | <b>3,544,661</b>     | <b>22,489</b>     | <b>2.54</b>   |
| <b>Total interest bearing liabilities</b>  | <b>20,560,046</b>    | <b>39,927</b>     | <b>0.78</b>   | <b>20,475,533</b>    | <b>70,618</b>     | <b>1.38</b>   |
| Non-interest bearing deposits  | 5,004,907            |                   |               | 4,218,000            |                   |               |
| Other non-interest bearing liabilities   | 703,558              |                   |               | 549,508              |                   |               |
| <b>Total liabilities</b>   | <b>26,268,511</b>    |                   |               | <b>25,243,041</b>    |                   |               |
| Stockholders' equity   | 4,464,403            |                   |               | 4,423,910            |                   |               |
| <b>Total liabilities and stockholders' equity</b>                                      | <b>\$ 30,732,914</b> |                   |               | <b>\$ 29,666,951</b> |                   |               |
| <b>Net interest rate spread</b> <sup>3</sup>   |                      |                   | <b>3.01 %</b> |                      |                   | <b>3.28 %</b> |
| <b>Net interest earning assets</b> <sup>4</sup>  | <b>\$ 6,680,068</b>  |                   |               | <b>\$ 5,901,520</b>  |                   |               |
| Net interest margin - tax equivalent   |                      | 216,710           | 3.20 %        |                      | 235,673           | 3.58 %        |
| Less tax equivalent adjustment   |                      | (3,411)           |               |                      | (3,834)           |               |
| <b>Net interest income</b>   |                      | <b>213,299</b>    |               |                      | <b>231,839</b>    |               |
| Accretion income on acquired loans   |                      | 10,086            |               |                      | 23,745            |               |
| <b>Tax equivalent net interest margin excluding accretion income on acquired loans</b> |                      | <b>\$ 206,624</b> | <b>3.05 %</b> |                      | <b>\$ 211,928</b> | <b>3.22 %</b> |
| Ratio of interest earning assets to interest bearing liabilities                       | 132.5 %              |                   |               | 128.8 %              |                   |               |

See legend on following page.

**STERLING BANCORP AND SUBSIDIARIES**

For the six months ended June 30,

|   | 2020            |            |            | 2019            |            |            |
|---|-----------------|------------|------------|-----------------|------------|------------|
|   | Average balance | Interest   | Yield/Rate | Average balance | Interest   | Yield/Rate |
| <b>Interest earning assets:</b>   |                 |            |            |                 |            |            |
| Traditional C&I and commercial finance loans                                    | \$ 8,412,567    | \$ 173,342 | 4.14 %     | \$ 6,887,429    | \$ 186,171 | 5.45 %     |
| CRE (includes multi-family)   | 10,346,810      | 217,147    | 4.22       | 9,436,156       | 230,610    | 4.93       |
| ADC   | 508,263         | 12,083     | 4.78       | 295,858         | 9,004      | 6.14       |
| Commercial loans  | 19,267,640      | 402,572    | 4.20       | 16,619,443      | 425,785    | 5.17       |
| Consumer loans  | 226,347         | 5,173      | 4.60       | 287,721         | 8,110      | 5.68       |
| Residential mortgage loans  | 2,079,419       | 47,598     | 4.58       | 3,254,014       | 84,683     | 5.20       |
| Total net loans <sup>1</sup>  | 21,573,406      | 455,343    | 4.24       | 20,161,178      | 518,578    | 5.19       |
| Securities taxable  | 2,695,376       | 39,484     | 2.95       | 3,642,724       | 52,479     | 2.91       |
| Securities tax exempt   | 2,142,939       | 32,693     | 3.05       | 2,465,010       | 37,063     | 3.01       |
| Interest earning deposits   | 472,659         | 1,978      | 0.84       | 310,463         | 2,796      | 1.82       |
| FRB and FHLB stock  | 225,808         | 4,120      | 3.67       | 313,399         | 8,724      | 5.61       |
| Total securities and other earning assets                                       | 5,536,782       | 78,275     | 2.84       | 6,731,596       | 101,062    | 3.03       |
| Total interest earning assets   | 27,110,188      | 533,618    | 3.96       | 26,892,774      | 619,640    | 4.65       |
| Non-interest earning assets   | 3,498,485       |            |            | 3,309,200       |            |            |
| Total assets  | \$ 30,608,673   |            |            | \$ 30,201,974   |            |            |
| <b>Interest bearing liabilities:</b>  |                 |            |            |                 |            |            |
| Interest bearing demand deposits  | \$ 4,691,478    | \$ 14,364  | 0.62 %     | \$ 4,366,961    | \$ 23,528  | 1.09 %     |
| Savings deposits <sup>2</sup>   | 2,845,212       | 5,924      | 0.42       | 2,454,156       | 3,666      | 0.30       |
| Money market deposits   | 7,863,566       | 30,107     | 0.77       | 7,657,039       | 45,635     | 1.20       |
| Certificates of deposit   | 3,002,285       | 23,496     | 1.57       | 2,521,268       | 21,294     | 1.70       |
| Total interest bearing deposits   | 18,402,541      | 73,891     | 0.81       | 16,999,424      | 94,123     | 1.12       |
| Senior Notes  | 150,592         | 2,378      | 3.18       | 176,655         | 2,777      | 3.17       |
| Other borrowings  | 1,746,136       | 15,040     | 1.73       | 3,653,224       | 42,900     | 2.37       |
| Subordinated Notes - Bank   | 173,234         | 4,718      | 5.45       | 172,993         | 4,712      | 5.45       |
| Subordinated Notes - Company  | 271,007         | 5,655      | 4.17       | —               | —          | —          |
| Total borrowings  | 2,340,969       | 27,791     | 2.39       | 4,002,872       | 50,389     | 2.54       |
| Total interest bearing liabilities  | 20,743,510      | 101,682    | 0.99       | 21,002,296      | 144,512    | 1.39       |
| Non-interest bearing deposits   | 4,675,713       |            |            | 4,232,613       |            |            |
| Other non-interest bearing liabilities  | 703,980         |            |            | 547,362         |            |            |
| Total liabilities   | 26,123,203      |            |            | 25,782,271      |            |            |
| Stockholders' equity  | 4,485,470       |            |            | 4,419,703       |            |            |
| Total liabilities and stockholders' equity                                      | \$ 30,608,673   |            |            | \$ 30,201,974   |            |            |
| Net interest rate spread <sup>3</sup>   |                 |            | 2.97 %     |                 |            | 3.26 %     |
| Net interest earning assets <sup>4</sup>  | \$ 6,366,678    |            |            | \$ 5,890,478    |            |            |
| Net interest margin - tax equivalent  |                 | 431,936    | 3.20 %     |                 | 475,128    | 3.56 %     |
| Less tax equivalent adjustment  |                 | (6,865)    |            |                 | (7,783)    |            |
| Net interest income   |                 | 425,071    |            |                 | 467,345    |            |
| Accretion income on acquired loans  |                 | 20,772     |            |                 | 49,325     |            |
| Tax equivalent net interest margin excluding accretion income on acquired loans |                 | \$ 411,164 | 3.05 %     |                 | \$ 425,803 | 3.19 %     |
| Ratio of interest earning assets to interest bearing liabilities                | 130.7 %         |            |            | 128.0 %         |            |            |

<sup>1</sup> Average balances include loans held for sale and non-accrual loans. Includes the effect of net deferred loan origination fees, amortization of premiums, accretion of discounts and costs and non-accrual loans. Interest includes prepayment fees and late charges.

<sup>2</sup> Includes club accounts and interest bearing mortgage escrow balances.

**STERLING BANCORP AND SUBSIDIARIES**

<sup>3</sup> Net interest rate spread represents the difference between the tax equivalent yield on average interest earning assets and the cost of average interest bearing liabilities.

<sup>4</sup> Net interest earning assets represents total interest earning assets less total interest bearing liabilities.

The following table presents the dollar amount of changes in interest income (on a fully tax equivalent basis) and interest expense for the major categories of our interest earning assets and interest bearing liabilities for the periods indicated. Information is provided for each category of interest earning assets and interest bearing liabilities with respect to (i) changes attributable to changes in volume (*i.e.*, changes in average balances multiplied by the prior period average rate); and (ii) changes attributable to changes in rate (*i.e.*, changes in average rate multiplied by prior period average balances). For purposes of this table, changes attributable to both rate and volume, which cannot be segregated, have been allocated proportionately to the change due to volume and the change due to rate.

|  | For the three months ended June 30,<br>2020 vs. 2019 |                    |                                   |
|--|--|--------------------|-----------------------------------|
|  | Increase / (Decrease)<br>due to                      |                    | Total<br>increase /<br>(decrease) |
|  | Volume   | Rate               |                                   |
| <b>Interest earning assets:</b>              |  |                    |                                   |
| Traditional C&I and commercial finance loans | \$ 18,654  | \$ (31,722)        | \$ (13,068)                       |
| CRE (includes multi-family)                  | 10,365   | (19,716)           | (9,351)                           |
| ADC  | 2,586  | (1,488)            | 1,098                             |
| Commercial loans                             | 31,605   | (52,926)           | (21,321)                          |
| Consumer loans                               | (769)  | (1,011)            | (1,780)                           |
| Residential mortgage loans                   | (7,713)  | (7,565)            | (15,278)                          |
| Total loans                                  | 23,123   | (61,502)           | (38,379)                          |
| Securities taxable                           | (7,080)  | 1,303              | (5,777)                           |
| Securities tax exempt                        | (2,315)  | 300                | (2,015)                           |
| Interest earning deposits                    | 480  | (1,629)            | (1,149)                           |
| FRB and FHLB stock                           | (849)  | (1,485)            | (2,334)                           |
| Total interest earning assets                | 13,359   | (63,013)           | (49,654)                          |
| <b>Interest bearing liabilities:</b>         |  |                    |                                   |
| Interest bearing demand deposits             | 898  | (7,976)            | (7,078)                           |
| Savings deposits <sup>1</sup>                | 348  | 187                | 535                               |
| Money market deposits                        | 1,393  | (12,702)           | (11,309)                          |
| Certificates of deposit                      | 926  | (3,093)            | (2,167)                           |
| Total interest bearing deposits              | 3,565  | (23,584)           | (20,019)                          |
| Senior Notes                                 | (343)  | (78)               | (421)                             |
| Other borrowings                             | (7,734)  | (5,350)            | (13,084)                          |
| Subordinated Notes - Bank                    | 5  | —                  | 5                                 |
| Subordinated Notes - Company                 | —  | 2,828              | 2,828                             |
| Total borrowings                             | (8,072)  | (2,600)            | (10,672)                          |
| Total interest bearing liabilities           | (4,507)  | (26,184)           | (30,691)                          |
| Change in tax equivalent net interest income | 17,866   | (36,829)           | (18,963)                          |
| Less tax equivalent adjustment               | (423)  | —                  | (423)                             |
| Change in net interest income                | <u>\$ 18,289</u>                                     | <u>\$ (36,829)</u> | <u>\$ (18,540)</u>                |

<sup>1</sup> Includes club accounts and interest bearing mortgage escrow balances.

**STERLING BANCORP AND SUBSIDIARIES**

|   | For the six months ended June 30,<br>2020 vs. 2019 |                    |                                   |
|---|--|--------------------|-----------------------------------|
|   | Increase / (Decrease)<br>due to                    |                    | Total<br>increase /<br>(decrease) |
|   | Volume   | Rate               |                                   |
| <b>Interest earning assets:</b>                     |  |                    |                                   |
| Traditional C&I and commercial finance loans        | \$ 36,874  | \$ (49,703)        | \$ (12,829)                       |
| CRE (includes multi-family)                         | 21,333   | (34,796)           | (13,463)                          |
| ADC   | 5,411  | (2,332)            | 3,079                             |
| Commercial loans                                    | 63,618   | (86,831)           | (23,213)                          |
| Consumer loans                                      | (1,553)  | (1,384)            | (2,937)                           |
| Residential mortgage loans                          | (27,877)   | (9,208)            | (37,085)                          |
| <b>Total loans</b>                                  | <b>34,188</b>                                      | <b>(97,423)</b>    | <b>(63,235)</b>                   |
| Securities taxable                                  | (13,719)   | 724                | (12,995)                          |
| Securities tax exempt                               | (4,428)  | 58                 | (4,370)                           |
| Interest earning deposits                           | 1,087  | (1,905)            | (818)                             |
| FRB and FHLB stock                                  | (2,058)  | (2,546)            | (4,604)                           |
| <b>Total interest earning assets</b>                | <b>15,070</b>                                      | <b>(101,092)</b>   | <b>(86,022)</b>                   |
| <b>Interest bearing liabilities:</b>                |  |                    |                                   |
| Interest bearing demand deposits                    | 1,653  | (10,818)           | (9,165)                           |
| Savings deposits <sup>1</sup>                       | 643  | 1,615              | 2,258                             |
| Money market deposits                               | 1,204  | (16,732)           | (15,528)                          |
| Certificates of deposit                             | 3,899  | (1,697)            | 2,202                             |
| <b>Total interest bearing deposits</b>              | <b>7,399</b>                                       | <b>(27,632)</b>    | <b>(20,233)</b>                   |
| Senior Notes  | (417)  | 18                 | (399)                             |
| Other borrowings                                    | (18,432)   | (9,427)            | (27,859)                          |
| Subordinated Notes - Bank                           | 6  | —                  | 6                                 |
| Subordinated Notes - Company                        | —  | 5,655              | 5,655                             |
| <b>Total borrowings</b>                             | <b>(18,843)</b>                                    | <b>(3,754)</b>     | <b>(22,597)</b>                   |
| <b>Total interest bearing liabilities</b>           | <b>(11,444)</b>                                    | <b>(31,386)</b>    | <b>(42,830)</b>                   |
| <b>Change in tax equivalent net interest income</b> | <b>26,514</b>                                      | <b>(69,706)</b>    | <b>(43,192)</b>                   |
| Less tax equivalent adjustment                      | (917)  | —                  | (917)                             |
| <b>Change in net interest income</b>                | <b>\$ 27,431</b>                                   | <b>\$ (69,706)</b> | <b>\$ (42,275)</b>                |

Tax equivalent net interest income decreased \$19.0 million for the three months ended June 30, 2020, compared to the three months ended June 30, 2019. The decrease was mainly due to lower yield on interest earning assets, which was due to a decline in market rates of interest and accretion income on acquired loans. For the three months ended June 30, 2020, total interest earning assets yielded 3.79% compared to 4.66% during 2019. Average interest earning assets increased by \$863.1 million between the periods, which was mainly due to the growth of commercial loans that was partially offset by continued payoff of residential loans and sale and repayment of investment securities. The tax equivalent net interest margin decreased 38 basis points to 3.20% in the second quarter of 2020 from 3.58% in the second quarter of 2019. The percentage of loans to average earning assets increased to 80.5% compared to 75.5% in 2019. The cost of interest bearing liabilities declined to 0.78% compared to 1.38% in 2019, which was mainly due to lower market rates of interest and reduction of higher cost wholesale borrowings.

Tax equivalent net interest income decreased \$43.2 million to \$431.9 million for the six months ended June 30, 2020, compared to \$475.1 million for the six months ended June 30, 2019. The decrease was mainly due to the same factors as discussed above. The tax equivalent net interest margin decreased to 3.20% for the six months ended June 30, 2020 from 3.56% in the six months ended June 30, 2019. The yield on interest earning assets was 3.96% compared to 4.65% for the six months ended June 30, 2019, which was mainly due to changes in market rates of interest and lower accretion income. The percentage of loans to average earning assets increased to 79.6%

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for the six months ended June 30, 2020 compared to 75.0% for the six months ended June 30, 2019. The cost of interest bearing liabilities declined to 0.99% for the six months ended June 30, 2020 compared to 1.39% for the six months ended June 30, 2019.

The average balance of loans outstanding increased \$2.0 billion for the three months ended June 30, 2020 compared to the three months ended June 30, 2019. The increase was due to loans originated by our commercial banking teams, which included \$377.7 million of PPP loans and two portfolio acquisitions, discussed in Note 2. "Acquisitions". The average balance of commercial loans increased \$2.7 billion between the periods. The average yield on loans was 4.03% compared to 5.20% in the comparable year ago period. The decrease in the yield on loans was due to the change in market rates of interest and a decline in accretion income on acquired loans, which was \$10.1 million compared to \$23.7 million in 2019.

The average balance of loans outstanding increased \$1.4 billion in the six months ended June 30, 2020, compared to the six months ended June 30, 2019, as the growth in average balance of commercial loans was greater than the decline in the average balance of residential mortgage and consumer loans. The average yield on loans was 4.24% in the six months ended June 30, 2020 compared to 5.19% in the comparable year ago period. The decline in yield on loans was due to the same factors as for the three-month period.

Interest income on traditional C&I and commercial finance loans decreased \$13.1 million for the three months ended June 30, 2020, compared to the three months ended June 30, 2019. The yield on traditional C&I and commercial finance loans declined to 3.85% compared to 5.42% in 2019. The decrease in yield was due to a change in the mix of business, as lower yielding mortgage warehouse and public sector finance loans represented a substantial portion of the increase in average balances between the periods, the decrease in market interest rates, and lower accretion income.

Interest income on traditional C&I and commercial finance loans decreased \$12.8 million and was \$173.3 million in the six months ended June 30, 2020. This decrease was mainly due to the same factors as for the three-month period. The yield on traditional C&I and commercial finance loans decreased to 4.14% compared to 5.45% in the six months ended June 30, 2019.

Interest income on CRE loans and multi-family loans decreased \$9.4 million for the three months ended June 30, 2020, compared to the three months ended June 30, 2019. The average balance of CRE and multi-family loans increased \$918.3 million between the periods. The yield on CRE and multi-family loans was 4.11% compared to 4.89% for the three months ended June 30, 2019. The decrease in yield was mainly due to a change in market interest rates, lower accretion income and lower levels of prepayment penalties.

Interest income on CRE loans and multi-family loans decreased \$13.5 million to \$217.1 million in the six months ended June 30, 2020. The yield on CRE and multi-family loans was 4.22% in the six months ended June 30, 2020 compared to 4.93% in the six months ended June 30, 2019. The decrease in yield was mainly due to the same factors discussed in the three-month period.

Interest income on residential mortgage loans declined \$15.3 million for the three months ended June 30, 2020, compared to the three months ended June 30, 2019. The decrease was mainly due to a \$629.5 million decline in the average balance of residential mortgage loans, which was driven by the residential mortgage loan sale completed in 2019 and continued run-off of the portfolio. The yield on residential mortgage loans decreased 130 basis points to 4.25%. The decline in yield was mainly due to lower accretion income on acquired residential mortgage loans, which was \$2.4 million compared to \$8.4 million in 2019. The decline in yield was also due to adjustable rate loans repricing to market rates of interest.

Interest income on residential mortgage loans decreased \$37.1 million to \$47.6 million in the six months ended June 30, 2020. The decrease was mainly due to a \$1.2 billion decline in the average balance of residential mortgage loans as a result of the loan sales and continued run-off. The yield on residential mortgage loans declined to 4.58% compared to 5.20% for the six months ended June 30, 2019. The yield on residential mortgage loans declined due to changes in market rates of interest on adjustable mortgage loans and lower accretion income on acquired residential mortgage loans, which was \$5.3 million for the six months ended June 30, 2020 compared to \$16.5 million for the six months ended June 30, 2019.

Tax equivalent interest income on securities decreased \$7.8 million for the three months ended June 30, 2020. This was mainly the result of a decrease of \$1.3 billion in the average balance of securities between the periods. The decline was mainly due to sales of lower yielding securities and accelerated repayments of mortgage-backed securities. The tax equivalent yield on securities increased to 3.05% compared to 2.92% in 2019. The increase in yield was mainly due to sales of lower yielding municipal securities in 2019. The average balance of tax-exempt securities declined to \$2.1 billion, compared to \$2.4 billion.

Tax equivalent interest income on securities decreased \$17.4 million to \$72.2 million in the six months ended June 30, 2020. This was mainly the result of a decrease of \$1.3 billion in the average balance of securities between the periods. The tax equivalent yield on

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securities was 3.00% in the six months ended June 30, 2020, compared to 2.96% in the six months ended June 30, 2019. The change in average balance and yield is mainly due to the same factors as for the three-month period.

Average total deposits and mortgage escrow balances increased \$2.3 billion to \$23.5 billion in the three months ended June 30, 2020. Average interest bearing deposits increased \$1.5 billion and average non-interest bearing deposits increased by \$786.9 million. The increase in deposits was mainly due to the success of our deposit gathering strategies, which included digital channels and increasing penetration in our marketplace of commercial and municipal deposit relationships. In addition, many of our clients held higher deposit balances than normal as a result of the pandemic. The average cost of interest bearing deposits was 0.61% compared to 1.14%. The average cost of total deposits was 0.48% compared to 0.91% in the second quarter of 2019. The decrease in the cost of deposits was mainly due to declines in market interest rates.

Average total deposits and mortgage escrow balances increased \$1.8 billion to \$23.1 billion in the six months ended June 30, 2020. Average interest bearing deposits increased \$1.4 billion in the six months ended June 30, 2020 compared to the six months ended June 30, 2019. Average non-interest bearing deposits increased \$443.1 million to \$4.7 billion in the six months ended June 30, 2020. These increases were mainly due to the same factors as discussed above. The average cost of interest bearing deposits was 0.81% in the six months ended June 30, 2020 compared to 1.12% in the six months ended June 30, 2019. The average cost of total deposits was 0.64% in the six months ended June 30, 2020 compared to 0.89% in the six months ended June 30, 2019. The decrease in the cost of deposits was mainly due to the same factors discussed above.

Average borrowings declined \$1.4 billion in the three months ended June 30, 2020, compared to the same period a year ago. The decrease was mainly the result of an increase in deposits and a decline in residential mortgage loan balances and investment securities between the periods, as proceeds from repayments and sales of assets were used mainly to reduce borrowings. The average cost of borrowings was 2.26% for the second quarter of 2020, compared to 2.54% in 2019.

Average borrowings decreased \$1.7 billion to \$2.3 billion in the six months ended June 30, 2020, compared to \$4.0 billion in the same period a year ago. The decrease in average borrowings was due to the same factors as discussed in the three-month period. The average cost of borrowings was 2.39% for the six months ended June 30, 2020 compared to 2.54% in the six months ended June 30, 2019. The decrease was mainly due to the same factors as discussed in the three-month period.

***Provision for Credit Losses - Loans.*** The provision for credit losses - loans is determined as the amount to be added to the ACL - loans after net charge-offs have been deducted to bring the allowance to a level that is our best estimate of the net amount not expected to be collected on portfolio loans. For the three months ended June 30, 2020 and June 30, 2019, the provision for credit losses - loans was \$56.6 million and \$11.5 million, respectively. For the six months ended June 30, 2020 and June 30, 2019, the provision for credit losses - loans was \$193.2 million and \$21.7 million, respectively. See the section captioned “Non-Performing Loans and Non-Performing Assets” later in this discussion for further analysis of the provision for credit losses.

***Provision for Credit Losses - HTM Securities.*** The provision for credit losses - HTM securities for the three and six month periods ended June 30, 2020, was \$0, and \$1.7 million, respectively. The ACL - HTM securities is based on our estimate of loss given anticipated defaults due to COVID-19 and deterioration in economic conditions.

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**Non-interest income.** The components of non-interest income were as follows for the periods presented below:

|   | For the three months ended |                  | For the six months ended |                  |
|---|----------------------------|------------------|--------------------------|------------------|
|   | June 30,                   |                  | June 30,                 |                  |
|   | 2020                       | 2019             | 2020                     | 2019             |
| Deposit fees and service charges                                      | \$ 5,345                   | \$ 7,098         | \$ 11,968                | \$ 13,310        |
| Accounts receivable management / factoring commissions and other fees | 4,419                      | 5,794            | 9,956                    | 11,217           |
| Bank owned life insurance   | 4,950                      | 4,192            | 9,967                    | 7,833            |
| Loan commissions and fees   | 8,003                      | 5,308            | 19,028                   | 9,146            |
| Investment management fees  | 1,379                      | 2,050            | 3,225                    | 3,950            |
| Net gain (loss) on sale of securities                                 | 485                        | (528)            | 8,896                    | (13,712)         |
| Net gain on called securities   | —                          | —                | 4,880                    | —                |
| Gain on sale of residential mortgage loans                            | —                          | —                | —                        | 8,313            |
| Other   | 1,509                      | 3,144            | 5,496                    | 6,598            |
| <b>Total non-interest income</b>                                      | <b>\$ 26,090</b>           | <b>\$ 27,058</b> | <b>\$ 73,416</b>         | <b>\$ 46,655</b> |

Non-interest income was \$26.1 million for the three months ended June 30, 2020, compared to \$27.1 million in the same period a year ago. Generally, unless otherwise stated below, the change in non-interest income for the three months ended June 30, 2020, compared to the three months ended June 30, 2019 was due to the same factors as between the six month periods.

*Deposit fees and service charges* were \$5.3 million for the second quarter of 2020, which represented a \$1.8 million decrease from the second quarter of 2019, which was mainly due to lower transaction volume as a result of the pandemic.

*Bank owned life insurance* (“BOLI”) income represents the change in the cash surrender value of life insurance policies owned by us. BOLI income was \$5.0 million for the second quarter of 2020, compared to \$4.2 million in the same period a year ago. Between the two periods, in the second half of 2019 we restructured the BOLI acquired in the merger with Astoria Financial Corporation (the “Astoria Merger”) by reinvesting the assets into securities that have a better risk adjusted return profile.

*Loan commissions and fee* income includes fees on lines of credit, loan servicing fees, loan syndication fees, collateral monitoring, and other loan related fees that are not included in interest income. Loan commissions and fees were \$8.0 million for the three months ended June 30, 2020, compared to \$5.3 million for the three months ended June 30, 2019. The increase was mainly due to fee income earned on operating leases of \$3.8 million. Operating leases were acquired in the Santander portfolio acquisition that we completed in November 2019, which is discussed in Note 2. “Acquisitions.” In the six-month period ended June 30, 2020, loan fees also included gain on sale of equipment finance loans of \$2.9 million.

When we analyze the results of our non-interest income, we exclude certain items, including gains and losses on sales of securities and the gain on sale of residential mortgage loans. Excluding net gain (loss) on sale of securities, non-interest income was \$25.6 million for the second quarter of 2020 compared to \$27.6 million for the second quarter of 2019.

*Net gain (loss) on sale of securities* represents net gains or losses incurred on the sale of securities from our AFS investment securities portfolio. Net gain (loss) on sale of securities is impacted significantly by changes in market interest rates and strategies we use to manage yield, liquidity and interest rate risk, and it is difficult to forecast the amount of net losses or gains consistently. We realized a net gain on sale of securities of \$485 thousand in the three months ended June 30, 2020 compared to a loss of \$528 thousand in the three months ended June 30, 2019. The net gain in 2020 and the net loss in 2019 was mainly due to the sale of municipal securities as we managed the portfolio in response to market conditions. For the six months ended June 30, 2020, we realized net gain on sale of securities of \$8.9 million compared to a net loss of \$13.7 million in 2019. We realized gains in 2020 to reduce the level of investment securities to total earning assets. We realized a loss in 2019 mainly due to the sale of \$738.8 million of AFS securities. The proceeds were used to fund a portion of the commercial loans acquired from Woodforest and to reduce wholesale deposits and borrowings.

*Net gain on called securities* in the six months ended June 30, 2020 represents income earned on securities called of \$139.8 million, which were mainly government agency securities.

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*Gain on sale of residential mortgage loans* represents the net gain realized on the sale of residential mortgage loans held for sale in the first quarter of 2019. The sale was part of our strategy of increasing the percentage of commercial loans to total loans in our loan portfolio.

*Other non-interest income* principally includes fees for loan swaps, safe deposit rentals and foreign exchange fees. Other non-interest income declined to \$1.5 million in 2020 from \$3.1 million in 2019 and was mainly due to lower loan swap transaction volumes.

**Non-interest expense.** The components of non-interest expense were as follows for the periods presented below:

|  | For the three months ended |                   | For the six months ended |                   |
|--|----------------------------|-------------------|--------------------------|-------------------|
|  | June 30,                   |                   | June 30,                 |                   |
|  | 2020                       | 2019              | 2020                     | 2019              |
| Compensation and benefits  | \$ 54,668                  | \$ 54,473         | \$ 109,544               | \$ 110,463        |
| Stock-based compensation plans   | 5,913                      | 4,605             | 11,919                   | 9,728             |
| Occupancy and office operations  | 14,695                     | 16,106            | 29,894                   | 32,641            |
| Information technology   | 7,312                      | 9,047             | 15,330                   | 17,722            |
| Amortization of intangible assets  | 4,200                      | 4,785             | 8,400                    | 9,611             |
| FDIC insurance and regulatory assessments                                      | 3,638                      | 2,994             | 6,844                    | 6,332             |
| OREO, net  | 1,233                      | 458               | 1,285                    | 675               |
| Charge for asset write-downs, retention and severance                          | —                          | —                 | —                        | 3,344             |
| Impairment related to financial centers and real estate consolidation strategy | —                          | 14,398            | —                        | 14,398            |
| Other non-interest expense   | 33,222                     | 20,074            | 56,378                   | 37,018            |
| <b>Total non-interest expense</b>  | <b>\$ 124,881</b>          | <b>\$ 126,940</b> | <b>\$ 239,594</b>        | <b>\$ 241,932</b> |

Non-interest expense for the three months ended June 30, 2020 was \$124.9 million, a \$2.1 million decrease from \$126.9 million for the three months ended June 30, 2019. The decrease between the periods was mainly a result of strong management of operating expenses, including continued execution of our real estate consolidation strategy and efficiencies in technology. Changes in the components of non-interest expense are discussed below.

*Compensation and benefits expense* was \$54.7 million for the three months ended June 30, 2020, compared to \$54.5 million for the three months ended June 30, 2019. The decline was due to lower payroll taxes. For the six months ended June 30, 2020, compensation and benefits declined \$919 thousand, which was mainly due to a decline in our full time equivalent employees between the periods.

*Stock-based compensation plans expense* was \$5.9 million in the second quarter of 2020, compared to \$4.6 million in the second quarter of 2019. For the six months ended June 30, 2020, stock based compensation plans expense increased \$2.2 million. The increases were due to a greater percentage of compensation paid to our executive management and senior personnel in stock awards to better align the interests of management and employees to those of our stockholders. For additional information related to our employee benefit plans and stock-based compensation, see Note 11. "Stock-Based Compensation" in the notes to consolidated financial statements included elsewhere in this report.

*Occupancy and office operations expense* was \$14.7 million in the second quarter of 2020, compared to \$16.1 million in the second quarter of 2019. For the six months ended June 30, 2020 occupancy and office operations expense declined by \$2.7 million. At June 30, 2020, we had 78 financial center locations, compared to 97 financial centers at June 30, 2019.

*Information technology expense*, which mainly includes the cost of our loan and deposit operating systems and contracted service and maintenance associated with other data processing systems, was \$7.3 million in the second quarter of 2020, compared to \$9.0 million in the second quarter of 2019. For the six months ended June 30, 2020 information technology expense declined by \$2.4 million. The decreases in information technology expense was mainly due to a decline in data processing expense.



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*Amortization of intangible assets expense* mainly includes amortization of core deposit intangible assets, customer lists and non-compete agreements. Amortization of intangible assets was \$4.2 million in the three months ended June 30, 2020, compared to \$4.8 million for the three months ended June 30, 2019. For the six months ended June 30, 2020, amortization of intangible assets expense declined by \$1.2 million. The decreases in amortization expense were mainly due to the accelerated amortization of the core deposit intangible assets that were recorded in the Astoria Merger and other acquisitions. For additional information, see Note 6. “Goodwill and Other Intangible Assets” in the notes to the consolidated financial statements included elsewhere in this report.

*Charge for asset write-downs, retention and severance expense* was \$3.3 million for the six months ended June 30, 2019. In the year ago period we incurred a charge related to the Woodforest portfolio acquisition for professional fees, retention and severance, systems integration costs and an impairment of a lease assumed in the transaction.

*Impairment related to financial centers and real estate consolidation strategy* was \$14.4 million for the three and six months ended June 30, 2019. This charge included a write-off of leasehold improvements, land and buildings, and the early termination of several long-term leases.

*Other non-interest expense* includes professional fees, depreciation expense on operating leases acquired in the Santander Portfolio Acquisition, advertising and promotion, communications, residential mortgage loan servicing, insurance, operational losses, commercial loan processing expenses, pension and post retirement plans, recruitment fees, taxes not included in income tax expense, travel and client entertainment, and colleague training expense. For the three months ended June 30, 2020, other non-interest expense was \$33.2 million, compared to \$20.1 million for the three months ended June 30, 2019. For the six months ended June 30, 2020, other non-interest expense increased by \$19.4 million. The increases were mainly due to incremental operating expenses of \$3.7 million related to COVID-19 for charitable contributions, compensation and occupancy expenses and \$9.7 million for the three month 2020 period and \$10.5 million for the six month 2020 period of termination fees associated with the exit of FHLB borrowings. The three months and six months ended June 30, 2020 included depreciation expense on operating leases of \$3.1 million and \$6.6 million that did not occur in 2019. See Note 12. “Other Non-Interest Expense, Other Assets and Other Liabilities” in the notes to the consolidated financial statements included elsewhere in this report for details on significant components.

*Income tax expense (benefit)* was \$7.1 million for the three months ended June 30, 2020 compared to \$24.0 million for the three months ended June 30, 2019. Based on our results year to date, increased provision expense, and the resulting increase in the percentage of non-taxable income to taxable income, we reduced our estimated effective income tax rate to 12.5% for the six months ended June 30, 2020. Note that our estimated effective tax rate may fluctuate based on the amount of provision for credit losses that we record in the remainder of 2020. For the six months ended June 30, 2020, we recorded an income tax benefit of \$932 thousand compared to income tax expense of \$52.5 million for the six months ended June 30, 2019. Income tax expense was recorded at 21.0% in the three and six months ended June 30, 2019. For the six months ended June 30, 2020, income tax expense was impacted by two discrete items:

- Based on provisions of the CARES Act, we had an NOL carryback that resulted in an income tax benefit of \$21.3 million. We recorded an accrual for uncertain tax positions of \$11.5 million which is discussed in Note 10. “Income Taxes”. The net of these two items was an income tax benefit of \$9.8 million.
- We recorded income tax expense of \$778 thousand due to vesting of stock-based compensation.

See Note 10. “Income Taxes” in the notes to the consolidated financial statements included elsewhere in this report for additional information.

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### Portfolio Loans

The following table sets forth the composition of our loan portfolio, excluding loans held for sale, by type of loan at the periods indicated.

|                             | June 30, 2020 |         | December 31, 2019 |         |
|-----------------------------|---------------|---------|-------------------|---------|
|                             | Amount        | %       | Amount            | %       |
| Commercial:                 |               |         |                   |         |
| C&I:                        |               |         |                   |         |
| Traditional C&I             | \$ 3,361,655  | 15.1 %  | \$ 2,355,031      | 11.0 %  |
| Asset-based lending         | 856,020       | 3.8     | 1,082,618         | 5.0     |
| Payroll finance             | 124,354       | 0.6     | 226,866           | 1.1     |
| Warehouse lending           | 1,567,186     | 7.0     | 1,330,884         | 6.2     |
| Factored receivables        | 158,509       | 0.7     | 223,638           | 1.0     |
| Equipment financing         | 1,699,805     | 7.6     | 1,800,564         | 8.4     |
| Public sector finance       | 1,399,215     | 6.3     | 1,213,118         | 5.7     |
| Total C&I                   | 9,166,744     | 41.1    | 8,232,719         | 38.4    |
| Commercial mortgage:        |               |         |                   |         |
| CRE                         | 5,817,958     | 26.0    | 5,418,648         | 25.3    |
| Multi-family                | 4,584,939     | 20.6    | 4,876,870         | 22.7    |
| ADC                         | 572,558       | 2.6     | 467,331           | 2.2     |
| Total commercial mortgage   | 10,975,455    | 49.2    | 10,762,849        | 50.2    |
| Total commercial            | 20,142,199    | 90.3    | 18,995,568        | 88.6    |
| Residential mortgage        | 1,938,212     | 8.7     | 2,210,112         | 10.3    |
| Consumer                    | 214,856       | 1.0     | 234,532           | 1.1     |
| Total portfolio loans       | 22,295,267    | 100.0 % | 21,440,212        | 100.0 % |
| Allowance for credit losses | (365,489)     |         | (106,238)         |         |
| Total portfolio loans, net  | \$ 21,929,778 |         | \$ 21,333,974     |         |

Note: the percentages in the table above are rounded to the nearest tenth of a percent.

**Overview.** Total portfolio loans, net, increased \$595.8 million to \$21.9 billion at June 30, 2020, compared to \$21.3 billion at December 31, 2019. This was mainly due to an increase in total commercial loans of \$1.1 billion, which was offset by a decline in residential mortgage loans of \$271.9 million, and the change in the ACL of \$259.3 million. The change in total portfolio loans is consistent with our strategy of transitioning our portfolio composition to reduce residential mortgage loans and increase the proportion of commercial loans.

At June 30, 2020, total C&I loans comprised 41.1% of the total loan portfolio, compared to 38.4% at December 31, 2019. Commercial mortgage loans comprised 49.2% and 50.2% of the total loan portfolio at June 30, 2020 and December 31, 2019, respectively. Residential mortgage loans comprised 8.7% of the total loan portfolio at June 30, 2020, compared to 10.3% at December 31, 2019. Our goal, over time, is for our loan portfolio to consist of 45.0% traditional C&I and commercial finance; 45.0% commercial real estate; and 10.0% consumer and residential mortgage loans.

In the six months ended June 30, 2020, traditional C&I loans increased by \$1.0 billion, which included \$635.7 million of PPP loans originated in the second quarter of 2020. Warehouse lending loans increased \$236.3 million, which was mainly due to the decline in residential mortgage interest rates and an increase in residential mortgage loan refinance activity. Public sector finance loans increased \$186.1 million, driven by continued investment by local municipalities in infrastructure and other projects. These increases were partially offset by declines in asset-based lending loans of \$226.6 million, which was due to decreases in borrowing bases as a result of reduced economic activity, a decline of \$100.8 million in equipment finance loans, which included the sale of \$98.4 million of small balance equipment finance loans and a decrease of \$102.5 million in payroll finance loans, due to seasonal fluctuations and the impact of COVID-19 on our clients' businesses.

CRE loans increased \$399.3 million in the six months ended June 30, 2020. The increase was mainly due to strong demand for these loan products in our market area. Multi-family loans declined in the first six months of 2020 by \$291.9 million, mainly due to run-off in broker originated loans that are not consistent with our strategy.

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ADC loans, which are a component of commercial mortgage loans, increased \$105.2 million in the six months ended June 30, 2020. This increase is mainly due to construction loans related to our affordable housing tax credit investments. Other ADC loans are generally originated to select clients, mostly within our immediate footprint.

Residential mortgage loans were \$1.9 billion at June 30, 2020 compared to \$2.2 billion at December 31, 2019. The decline was mainly due to repayments.

Included in our residential mortgage portfolio are loans that were originated in 2010 or earlier as interest-only adjustable rate mortgages (“ARM loans”) with terms of up to forty years, which have an initial fixed rate for five, seven or 10 years and convert into one year interest-only ARM loans at the end of the initial fixed rate period. Interest-only ARM loans require the borrower to pay interest only during the first ten years of the loan term, which typically results in a material increase in the borrower’s monthly payments upon conversion. After the tenth anniversary of the loan, principal and interest payments are required to amortize the loan over the remaining term. There were \$739.5 million of residential mortgage loans that were originated as interest only ARM loans at June 30, 2020 compared to \$846.6 million at December 31, 2019.

### *Non-Performing Loans and Non-Performing Assets*

The table below sets forth the amounts and categories of our NPAs at the dates indicated. There were no warehouse lending or public sector finance loans that were non-performing at such dates.

|   | June 30,<br>2020 | December 31,<br>2019 |
|---|------------------|----------------------|
| Non-accrual loans:                      |                  |                      |
| Traditional C&I                         | \$ 27,962        | \$ 27,148            |
| Asset-based lending                     | 23,188           | 4,966                |
| Payroll finance                         | 882              | 9,396                |
| Factored receivables                    | 6,320            | —                    |
| Equipment financing                     | 53,083           | 33,050               |
| Commercial real estate                  | 37,394           | 26,213               |
| Multi-family                            | 9,884            | 3,400                |
| ADC                                     | 30,434           | 434                  |
| Residential mortgage                    | 60,308           | 62,275               |
| Consumer                                | 10,878           | 12,169               |
| Total non-accrual loans                 | 260,333          | 179,051              |
| Accruing loans past due 90 days or more | 272              | 110                  |
| Total NPLs                              | 260,605          | 179,161              |
| OREO                                    | 8,665            | 12,189               |
| Total NPAs                              | \$ 269,270       | \$ 191,350           |
| TDRs accruing and not included above    | \$ 40,708        | \$ 49,807            |
| Ratios:                                 |                  |                      |
| NPLs to total loans                     | 1.17 %           | 0.84 %               |
| NPAs to total assets                    | 0.87             | 0.63                 |

**NPAs and NPLs.** NPLs include non-accrual loans and accruing loans past due 90 days or more. NPAs include NPLs and OREO. At June 30, 2020, total NPLs increased \$81.4 million to \$260.6 million compared to \$179.2 million at December 31, 2019. Non-accrual loans were \$260.3 million and loans 90 days past due and still accruing interest which were well secured and in the process of collection, were \$272 thousand as of June 30, 2020. Non-accrual loans increased by \$81.3 million to \$260.3 million at June 30, 2020 from \$179.1 million at December 31, 2019. The increase was mainly due to ADC, equipment finance, asset-based lending and commercial real estate loans, which are in the process of work-out or exit. Loans past due 90 days or more and still accruing was \$272 thousand and are consumer loans that were in the process of being renewed.

**TDRs.** TDRs still accruing interest income are loans modified for borrowers that have experienced financial difficulties but are performing in accordance with the terms of their loan and were performing prior to the modification. Loan modification concessions may include actions such as an extension of the maturity date or the lowering of interest rates and monthly payments. At June 30, 2020, total TDRs were \$75.8 million, of which \$40.7 million were performing in accordance with their modified terms and \$35.1 million were non-accrual. At December 31, 2019, total TDRs were \$75.7 million of which \$49.8 million were performing and \$25.8 million were

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non-accrual. The decrease in performing TDRs at June 30, 2020 was mainly due to the transfer to non-accrual of TDRs that were performing at December 31, 2019. Total charge-offs of TDR loans were \$4.3 million and \$554 thousand for the six months ended June 30, 2020 and 2019, respectively. TDR balances are detailed in the TDR section of Note 4. "Portfolio Loans" in the notes to the consolidated financial statements included elsewhere in this report. As of June 30, 2020, there were no commitments to lend additional funds to borrowers with loans that have been classified as TDRs.

**Forbearance under the CARES Act.** The CARES Act permits financial institutions to suspend requirements under GAAP for loan modifications to borrowers affected by COVID-19 that would otherwise be characterized as TDRs and suspend any determination related thereto if (i) the loan modification is made between March 1, 2020 and the earlier of December 31, 2020 or 60 days after the end of the coronavirus emergency declaration and (ii) the applicable loan was not more than 30 days past due as of December 31, 2019. On April 7, 2020, various regulatory agencies, including the Board of Governors of the Federal Reserve System and the Office of the Comptroller of the Currency, (the "Agencies") issued an interagency statement on loan modifications and reporting for financial institutions working with customers affected by COVID-19. The interagency statement was effective immediately and provided practical expedients for evaluating whether loan modifications that occur in response to COVID-19 are TDRs. The Agencies confirmed with the Financial Accounting Standards Board that short-term modifications made on a good faith basis in response to COVID-19 to borrowers who were current prior to any relief, are not considered to be TDRs. This includes short-term (e.g., six months) modifications such as payment deferrals, fee waivers, extensions of repayment terms, or other delays in payment that are insignificant. Borrowers considered current are those that are less than 30 days past due on their contractual payments at the time a modification program is implemented. We are applying this guidance to qualifying loan modifications.

At June 30, 2020, we had approved CARES Act conforming payment deferrals on outstanding loan balances as shown in the following table:

|                           | Loan balance<br>outstanding | Deferral of<br>principal and<br>interest | %     |
|---------------------------|-----------------------------|--|-------|
| Commercial                |                             |  |       |
| C&I:                      |                             |  |       |
| Traditional C&I           | \$ 3,361,655                | \$ 212,878                               | 6.3 % |
| Asset-based lending       | 856,020                     | —  | —     |
| Payroll finance           | 124,354                     | 295                                      | 0.2   |
| Warehouse lending         | 1,567,186                   | —  | —     |
| Factored receivables      | 158,509                     | —  | —     |
| Equipment finance         | 1,699,805                   | 236,207                                  | 13.9  |
| Public sector finance     | 1,399,215                   | —  | —     |
| Total C&I                 | 9,166,744                   | 449,380                                  | 4.9   |
| Commercial mortgage:      |                             |  |       |
| Commercial real estate    | 5,817,958                   | 749,318                                  | 12.9  |
| Multi-family              | 4,584,939                   | 197,758                                  | 4.3   |
| ADC                       | 572,558                     | 17,353                                   | 3.0   |
| Total commercial mortgage | 10,975,455                  | 964,429                                  | 8.8   |
| Total commercial          | 20,142,199                  | 1,413,809                                | 7.0   |
| Residential               | 1,938,212                   | 293,389                                  | 15.1  |
| Consumer                  | 214,856                     | 19,320                                   | 9.0   |
| Total Portfolio loans     | \$ 22,295,267               | \$ 1,726,518                             | 7.7 % |

Principal and interest deferrals were approved for 7.7% of our loan portfolio. Deferrals consist mainly of 90-day principal and interest deferral with the ability to extend an additional 90-day period at the Bank's option. We are closely monitoring and working with our clients to determine ongoing deferral extensions and requests.

**SBA PPP Loans.** We are participating as a lender under the SBA's PPP. As of June 30, 2020, we had nearly 3,300 loans totaling \$649.4 million outstanding. We anticipate many of these loans will be forgiven in the third quarter of 2020 and are actively working with our borrowers to submit the required documentation to the SBA.

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**OREO.** Real estate acquired as a result of foreclosure or by deed in lieu of foreclosure is classified as OREO until such time as it is sold. When real estate is transferred to OREO, it is recorded at fair value less costs to sell. If the fair value less cost to sell is less than the loan balance, the difference is charged against the ACL. After transfer to OREO, we regularly update the fair value of the properties. Subsequent declines in fair value are charged to current earnings and included in other non-interest expense as part of OREO expense. At June 30, 2020, we had OREO properties with a recorded balance of \$8.7 million, compared to \$12.2 million at December 31, 2019. The decrease was mainly due to \$2.7 million in sales and \$1.5 million of write-downs to fair value. We had OREO additions of \$732 thousand in the six months ended June 30, 2020.

**Classification of Assets.** Our determination as to the classification of our assets and the amount of our ACL are subject to review by our regulators, who can direct the charge-off of loans and order the establishment of additions to our ACL. Management regularly reviews our asset portfolio to determine whether any assets require classification in accordance with applicable regulations. As of June 30, 2020, we had \$141.8 million of loans designated as “special mention” compared to \$160.0 million at December 31, 2019. The decrease was mainly due to asset-based lending loans and small balance equipment finance loans which were classified substandard in the period.

On the basis of management’s review of our assets at June 30, 2020, classified assets consisted of substandard loans of \$415.9 million and OREO of \$8.7 million. Substandard loans were \$295.4 million and OREO was \$12.2 million at December 31, 2019. The increase in substandard loans in the six months ended June 30, 2020 was mainly related to asset-based lending loans, small balance equipment finance loans, commercial real estate loans and one ADC loan. Our asset resolution team is working with these borrowers to reduce the outstanding balances and maximize repayments.

**ACL - Loans.** The ACL - loans is a valuation account that is deducted from the amortized cost basis of portfolio loans to present the net amount expected to be collected on portfolio loans over their contractual life. See Note 1. “Basis of Financial Statement Presentation - (e) Accounting Principle Change” for additional detail regarding our ACL - loan calculation methodology.

Our estimate of credit losses at June 30, 2020 is based on the Moody’s June 2020 Forecast Vintage Baseline Scenario published July 4, 2020, which included the impact of economic developments such as the pandemic. The Moody’s baseline forecast incorporates a significant amount of macroeconomic assumptions and variables.

To address potential model uncertainties, we overlay qualitative factors to the quantitative results of loss estimates calculated under the assumptions above. The qualitative adjustments include the following:

- Lending policies and procedures including changes in lending strategies, underwriting standards, collection, write-off and recovery practices;
- Experience, ability and depth of management and lending and other relevant staff;
- Nature and volume of our loans and changes therein;
- Changes and expected changes in general market conditions of either the geographic area or industry related to our exposure;
- An adjustment for economic conditions during a reasonable and supportable period; and
- An adjustment for additional factors including data quality and changes in the number of assumptions used in quantitative models.

The ACL - loans increased from \$106.2 million at December 31, 2019 to \$365.5 million at June 30, 2020. The ACL - loans at June 30, 2020 represented 140.2% of non-performing loans and 1.64% of total portfolio loans. At December 31, 2019, the allowance for loan losses represented 59.3% of non-performing loans and 0.50% of total portfolio loans.

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**Allocation of ACL.** The following table sets forth the ACL allocated by loan category, the total loan balances by category (excluding loans held for sale), and the percent of loans in each category to total loans at the dates indicated. The allowance for loan losses allocated to each category is not necessarily indicative of future losses in any particular category and does not restrict the use of the allowance to absorb losses in other categories.

|                       | June 30, 2020                     |                 |                             | December 31, 2019               |                 |                              |
|-----------------------|-----------------------------------|-----------------|-----------------------------|---------------------------------|-----------------|------------------------------|
|                       | Allowance<br>for credit<br>losses | Loan<br>balance | % of ACL to<br>loan balance | Allowance<br>for loan<br>losses | Loan<br>balance | % of ALLL to<br>loan balance |
| Traditional C&I       | \$ 44,514                         | \$ 3,361,655    | 1.32 %                      | \$ 15,951                       | \$ 2,355,031    | 0.68 %                       |
| Asset-based lending   | 30,853                            | 856,020         | 3.60                        | 14,272                          | 1,082,618       | 1.32                         |
| Payroll finance       | 1,931                             | 124,354         | 1.55                        | 2,064                           | 226,866         | 0.91                         |
| Warehouse lending     | 668                               | 1,567,186       | 0.04                        | 917                             | 1,330,884       | 0.07                         |
| Factored receivables  | 10,586                            | 158,509         | 6.68                        | 654                             | 223,638         | 0.29                         |
| Equipment financing   | 78,172                            | 1,699,805       | 4.60                        | 16,723                          | 1,800,564       | 0.93                         |
| Public sector finance | 3,765                             | 1,399,215       | 0.27                        | 1,967                           | 1,213,118       | 0.16                         |
| CRE                   | 98,905                            | 5,817,958       | 1.70                        | 27,965                          | 5,418,648       | 0.52                         |
| Multi-family          | 36,652                            | 4,584,939       | 0.80                        | 11,440                          | 4,876,870       | 0.23                         |
| ADC                   | 18,195                            | 572,558         | 3.18                        | 4,732                           | 467,331         | 1.01                         |
| Residential mortgage  | 33,955                            | 1,938,212       | 1.75                        | 7,598                           | 2,210,112       | 0.34                         |
| Consumer              | 7,293                             | 214,856         | 3.39                        | 1,955                           | 234,532         | 0.83                         |
| Total                 | \$ 365,489                        | \$ 22,295,267   | 1.64                        | \$ 106,238                      | \$ 21,440,212   | 0.50                         |

**Collateral Dependent Loans.** A loan must meet both of the following conditions to be considered collateral dependent:

- We expect repayment of the financial asset to be provided substantially through the operation or sale of the collateral.
- We determined the borrower is experiencing financial difficulty as of the financial statement date.

Generally loans are identified as collateral dependent when the loan is in foreclosure, is a TDR or is a loan that was measured for impairment at December 31, 2019 (see below). For collateral dependent loans, we measure the expected credit losses based on the difference between the fair value of the collateral and the amortized cost basis. If the loan is in foreclosure, or we determine foreclosure is probable, we reduce the fair value of the collateral by costs to sell the asset. If we expect repayment from the operation of the asset, we do not reduce for the cost to sell.

Collateral dependent loans were \$160.0 million at June 30, 2020. The increase in collateral dependent loans compared to impaired loans at December 31, 2019, was mainly due to one ADC relationship, asset-based lending loans, equipment finance loans and the adoption of the CECL Standard, which impacted the classification of collateral dependent equipment finance and residential mortgage loans. Prior to 2020, equipment finance and residential mortgage loans were measured for impairment only if the loan balance exceeded \$750 thousand. As our CECL methodology allows us to determine fair value and expected credit losses for each loan individually, we now consider loans collateral dependent based on the criteria discussed above.

**Impaired Loans.** Before we implemented the CECL Standard, a loan was impaired when it was probable we will be unable to collect all amounts due according to the contractual terms of the loan agreement. Impaired loan values were based on one of three measures: (i) the present value of expected future cash flows discounted at the loan's effective interest rate; (ii) the loan's observable market price; or (iii) the fair value of the collateral if the loan is collateral dependent. If the measure of an impaired loan was less than its recorded investment, our practice was to write-down the loan against the allowance for loan losses so the recorded investment matched the impaired value of the loan. Impaired loans generally included a portion of non-performing loans and accruing and performing TDR loans. At December 31, 2019, we held impaired loans of \$109.0 million.

### Changes in Financial Condition between June 30, 2020 and December 31, 2019

Total assets increased \$253.4 million to \$30.8 billion at June 30, 2020, compared to \$30.6 billion at December 31, 2019. Components of the change in total assets were:

- Commercial loans increased by \$1.1 billion to \$20.1 billion at June 30, 2020, compared to \$19.0 billion at December 31, 2019. The majority of this increase is related to SBA PPP loans funded in the second quarter of 2020.
- Residential mortgage loans held in our loan portfolio declined by \$271.9 million to \$1.9 billion at June 30, 2020 compared to \$2.2 billion at December 31, 2019. This decline was mainly due to repayments.

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- Total investment securities declined by \$529.7 million to \$4.5 billion at June 30, 2020, compared to \$5.1 billion at December 31, 2019, mainly due to sales and calls of securities.
- Other assets increased by \$217.8 million to \$1.1 billion at June 30, 2020, compared to \$840.9 million at December 31, 2019. The components of other assets are as follows:

|  | June 30,<br>2020 | December 31,<br>2019 |
|--|------------------|----------------------|
| Low income housing tax credit investments                  | \$ 399,336       | \$ 386,824           |
| Right of use asset for operating leases                    | 102,379          | 112,226              |
| Fair value of swaps (see Note 9)                           | 174,553          | 67,318               |
| Cash on deposit as swap collateral net of settlement       | 95,510           | 93,606               |
| Operating leases - equipment and vehicles leased to others | 61,497           | 72,291               |
| Other assets   | 225,386          | 108,603              |
|  | \$ 1,058,661     | \$ 840,868           |

The table above includes the following items:

- We have invested in various limited partnerships that sponsor affordable housing projects using low income housing tax credits.
- The right of use assets for operating leases represents the asset recognized under the lease accounting standard which requires all operating leases to be recorded in the consolidated balance sheets, which are discussed in Note 15. “Commitments and Contingencies” in the notes to consolidated financial statements included elsewhere in this report.
- Fair value of swaps reflects the change in value since date of inception of our back-to-back commercial client loan swap program and positions, which are discussed in Note 9. “Derivatives” in the notes to consolidated financial statements included elsewhere in this report. The increase was mainly due to the decline in interest rates in the first half of 2020.
- Cash on deposit as swap collateral net of settlement represents amounts on deposit with third parties net of settlement to market for exchange traded and over the counter swaps.
- Other assets include cash on deposit as collateral for swaps, income taxes, prepaid insurance, prepaid property taxes, prepaid maintenance, accounts receivable and miscellaneous assets. The increase was mainly due to an increase in cash on deposit as collateral for swaps due to the decline in interest rates.

Total liabilities increased \$299.3 million to \$26.4 billion at June 30, 2020, compared to \$26.1 billion at December 31, 2019. The decrease was mainly due to the following:

- Total deposits increased \$1.2 billion to \$23.6 billion at June 30, 2020, compared to \$22.4 billion at December 31, 2019. Our core deposits were \$21.9 billion at June 30, 2020, which represented 92.8% of our total deposit balances.
  - Municipal deposits decreased \$264.0 million to \$1.7 billion at June 30, 2020, compared to \$2.0 billion at December 31, 2019. The decrease was mainly due to seasonal factors as tax collections generally increase these balances at the end of the first and third quarters.
  - Brokered deposits declined \$301.4 million to \$1.6 billion at June 30, 2020, compared to \$1.9 billion at December 31, 2019. The decrease was due to a change in funding mix as a result of other deposit inflows.
- PPPLF borrowings increased \$568.4 million at June 30, 2020. These borrowings are collateralized by PPP loans.

The increases above were partially offset by the following decreases:

- FHLB borrowings decreased \$1.3 billion to \$1.0 billion at June 30, 2020, compared to \$2.2 billion at December 31, 2019, which was mainly the result of an increase in deposits and PPPLF borrowings.
- Other liabilities declined \$22.3 million to \$671.1 million at June 30, 2020, compared to \$693.5 million at December 31, 2019. The decrease was mainly due to funding of accrued affordable housing commitments and payout of accruals for 2019 compensation.

### Supplemental Reporting of Non-GAAP Financial Measures

The non-GAAP financial measures presented below are used by our management and our Board of Directors on a regular basis in addition to our GAAP results to facilitate the assessment of our financial performance and to assess our performance compared to our annual budget and strategic plans. These non-GAAP financial measures complement our GAAP reporting and are presented below to provide investors, analysts, regulators and others information that we use to manage and evaluate our performance each period. This information supplements our GAAP reported results, and should not be viewed in isolation from, or as a substitute for, our GAAP results. Accordingly, this financial information should be read in conjunction with our consolidated financial statements, and notes

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thereto for the quarter ended June 30, 2020 included elsewhere in this report, and the year ended December 31, 2019, included in the 2019 Form 10-K.

|  | June 30,   |            |
|--|------------|------------|
|  | 2020       | 2019       |
| <b>The following table shows the reconciliation of pretax pre-provision net revenue to adjusted pretax pre-provision net revenue <sup>(1)</sup>:</b> |            |            |
| Net interest income  | \$ 213,299 | \$ 231,839 |
| Non-interest income  | 26,090     | 27,058     |
| Total net interest income and non-interest income  | 239,389    | 258,897    |
| Non-interest expense   | 124,881    | 126,940    |
| Pretax pre-provision net revenue   | 114,508    | 131,957    |
| <b>Adjustments:</b>  |            |            |
| Net (gain) loss on sale of securities  | (485)      | 528        |
| Loss on extinguishment of debt   | 9,723      | —          |
| Impairment related to financial centers and real estate consolidation strategy   | —          | 14,398     |
| Amortization of non-compete agreements and acquired customer list intangible assets  | 172        | 200        |
| Adjusted pretax pre-provision net revenue including accretion income   | 123,918    | 147,083    |
| Accretion income   | (10,086)   | (23,745)   |
| Adjusted pretax pre-provision net revenue excluding accretion income   | \$ 113,832 | \$ 123,338 |

See legend beginning on page 79.

|  | June 30,      |               |
|--|---------------|---------------|
|  | 2020          | 2019          |
| <b>The following table shows the reconciliation of stockholders' equity to tangible common equity and the tangible common equity ratio <sup>2</sup>:</b> |               |               |
| Total assets   | \$ 30,839,893 | \$ 30,237,545 |
| Goodwill and other intangibles   | (1,785,446)   | (1,777,748)   |
| Tangible assets  | 29,054,447    | 28,459,797    |
| Stockholders' equity   | 4,484,187     | 4,459,158     |
| Preferred stock  | (137,142)     | (138,011)     |
| Goodwill and other intangibles   | (1,785,446)   | (1,777,748)   |
| Tangible common stockholders' equity   | 2,561,599     | 2,543,399     |
| Common stock outstanding at period end   | 194,458,805   | 205,187,243   |
| Common stockholders' equity as a % of total assets   | 14.10 %       | 14.29 %       |
| Book value per common share  | \$ 22.35      | \$ 21.06      |
| Tangible common equity as a % of tangible assets   | 8.82 %        | 8.94 %        |
| Tangible book value per common share   | \$ 13.17      | \$ 12.40      |

See legend beginning on page 79.



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|  | For the three months ended |               | For the six months ended |               |
|--|----------------------------|---------------|--------------------------|---------------|
|  | June 30,                   |               | June 30,                 |               |
|  | 2020                       | 2019          | 2020                     | 2019          |
| <b>The following table shows the reconciliation of reported return on average tangible assets and adjusted return on average tangible assets <sup>3</sup>:</b> |                            |               |                          |               |
| Average assets   | \$ 30,732,914              | \$ 29,666,951 | \$ 30,608,673            | \$ 30,201,974 |
| Average goodwill and other intangibles   | (1,788,200)                | (1,780,885)   | (1,790,300)              | (1,768,763)   |
| Average tangible assets  | 28,944,714                 | 27,886,066    | 28,818,373               | 28,433,211    |
| Net income available to common stockholders  | 48,820                     | 94,473        | 60,991                   | 193,921       |
| Net income, if annualized  | 196,353                    | 378,930       | 122,317                  | 391,056       |
| Reported return on average tangible assets   | 0.68 %                     | 1.36 %        | 0.42 %                   | 1.38 %        |
| Adjusted net income (non-GAAP)   | \$ 56,926                  | \$ 105,124    | \$ 53,733                | \$ 212,408    |
| Annualized adjusted net income   | 228,955                    | 421,651       | 107,761                  | 428,337       |
| Adjusted return on average tangible assets (non-GAAP)  | 0.79 %                     | 1.51 %        | 0.38 %                   | 1.51 %        |

See legend beginning on page 76.

|   | For the three months ended |             | For the six months ended |             |
|---|----------------------------|-------------|--------------------------|-------------|
|   | June 30,                   |             | June 30,                 |             |
|   | 2020                       | 2019        | 2020                     | 2019        |
| <b>The following table shows the reconciliation of reported net income and reported EPS (GAAP) to adjusted net income available to common stockholders (non-GAAP) and adjusted diluted EPS (non-GAAP) <sup>4</sup>:</b> |                            |             |                          |             |
| Income before income tax expense  | \$ 57,902                  | \$ 120,457  | \$ 64,007                | \$ 250,368  |
| Income tax (benefit) expense  | 7,110                      | 23,997      | (932)                    | 52,471      |
| Net income (GAAP)   | 50,792                     | 96,460      | 64,939                   | 197,897     |
| Adjustments:  |                            |             |                          |             |
| Net (gain) loss on sale of securities   | (485)                      | 528         | (8,896)                  | 13,712      |
| Impairment related to financial centers and real estate consolidation strategy  | —                          | 14,398      | —                        | 14,398      |
| Net (gain) on sale of residential mortgage loans  | —                          | —           | —                        | (8,313)     |
| Charge for asset write-downs, retention and severance   | —                          | —           | —                        | 3,344       |
| Net loss (gain) on extinguishment of borrowings   | 9,723                      | —           | 10,467                   | (46)        |
| Amortization of non-compete agreements and acquired customer lists  | 172                        | 200         | 343                      | 441         |
| Total pre-tax adjustments   | 9,410                      | 15,126      | 1,914                    | 23,536      |
| Adjusted pre-tax income   | 67,312                     | 135,583     | 65,921                   | 273,904     |
| Adjusted income tax expense   | 8,414                      | 28,472      | 8,240                    | 57,520      |
| Adjusted net income (non-GAAP)  | 58,898                     | 107,111     | 57,681                   | 216,384     |
| Preferred stock dividend  | 1,972                      | 1,987       | 3,948                    | 3,976       |
| Adjusted net income available to common stockholders (non-GAAP)   | \$ 56,926                  | \$ 105,124  | \$ 53,733                | \$ 212,408  |
| Weighted average diluted shares   | 193,604,431                | 207,376,239 | 195,168,557              | 210,419,425 |
| Diluted EPS as reported (GAAP)  | \$ 0.25                    | \$ 0.46     | \$ 0.31                  | \$ 0.92     |
| Adjusted diluted EPS (non-GAAP)   | 0.29                       | 0.51        | 0.28                     | 1.01        |

See legend beginning on page 76.

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|   | For the three months ended |              | For the six months ended |              |
|---|----------------------------|--------------|--------------------------|--------------|
|   | June 30,                   |              | June 30,                 |              |
|   | 2020                       | 2019         | 2020                     | 2019         |
| <b>The following table shows the reconciliation of reported return on average tangible common stockholders' equity and adjusted return on average tangible common stockholders' equity<sup>5</sup>:</b> |                            |              |                          |              |
| Average stockholders' equity  | \$ 4,464,403               | \$ 4,423,910 | \$ 4,485,470             | \$ 4,419,703 |
| Average preferred stock   | (137,361)                  | (138,142)    | (137,470)                | (138,245)    |
| Average goodwill and other intangibles  | (1,788,200)                | (1,780,885)  | (1,790,300)              | (1,768,763)  |
| Average tangible common stockholders' equity  | 2,538,842                  | 2,504,883    | 2,557,700                | 2,512,695    |
| Net income available to common stockholders   | 48,820                     | 94,473       | 60,991                   | 193,921      |
| Net income, if annualized   | 196,353                    | 378,930      | 122,317                  | 391,056      |
| Reported return on average tangible common stockholders' equity   | 7.73 %                     | 15.13 %      | 4.78 %                   | 15.56 %      |
| Adjusted net income (non-GAAP)  | \$ 56,926                  | \$ 105,124   | \$ 53,733                | \$ 212,408   |
| Annualized adjusted net income  | 228,955                    | 421,651      | 107,761                  | 428,337      |
| Adjusted return on average tangible common stockholders' equity (non-GAAP)  | 9.02 %                     | 16.83 %      | 4.21 %                   | 17.05 %      |

See legend beginning on page 76.

|   | For the three months ended |            | For the six months ended |            |
|---|----------------------------|------------|--------------------------|------------|
|   | June 30,                   |            | June 30,                 |            |
|   | 2020                       | 2019       | 2020                     | 2019       |
| <b>The following table shows the reconciliation of the reported operating efficiency ratio and adjusted operating efficiency ratio<sup>6</sup>:</b> |                            |            |                          |            |
| Net interest income   | \$ 213,299                 | \$ 231,839 | \$ 425,071               | \$ 467,345 |
| Non-interest income   | 26,090                     | 27,058     | 73,416                   | 46,655     |
| Total revenue   | 239,389                    | 258,897    | 498,487                  | 514,000    |
| Tax equivalent adjustment on securities   | 3,411                      | 3,834      | 6,865                    | 7,781      |
| Loss on termination of pension plan   | —                          | —          | —                        | —          |
| Net (gain) loss on sale of securities   | (485)                      | 528        | (8,896)                  | 13,712     |
| Net (gain) on sale of residential mortgage loans  | —                          | —          | —                        | (8,313)    |
| Depreciation of operating leases  | (3,136)                    | —          | (6,628)                  | —          |
| Adjusted total revenue (non-GAAP)   | 239,179                    | 263,259    | 489,828                  | 527,180    |
| Non-interest expense  | 124,881                    | 126,940    | 239,594                  | 241,932    |
| Impairment related to financial centers and real estate consolidation strategy  | —                          | (14,398)   | —                        | (14,398)   |
| Charge for asset write-downs, systems integration, retention and severance  | —                          | —          | —                        | (3,344)    |
| Net (loss) gain on extinguishment of borrowings   | (9,723)                    | —          | (10,467)                 | 46         |
| Depreciation of operating leases  | (3,136)                    | —          | (6,628)                  | —          |
| Amortization of intangible assets   | (4,200)                    | (4,785)    | (8,400)                  | (9,611)    |
| Adjusted non-interest expense (non-GAAP)  | \$ 107,822                 | \$ 107,757 | \$ 214,099               | \$ 214,625 |
| Reported operating efficiency ratio (non-GAAP)  | 52.2 %                     | 49.0 %     | 48.1 %                   | 47.1 %     |
| Adjusted operating efficiency ratio (non-GAAP)  | 45.1                       | 40.9       | 43.7                     | 40.7       |

See legend beginning below.

<sup>1</sup> Pretax pre-provision net revenue represents our net interest income plus non-interest income less operating expenses before tax. With the adoption of CECL and the impact of the COVID-19 pandemic, we are providing this information so readers may make comparison of our results to prior periods.

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<sup>2</sup> Common stockholders' equity as a percentage of total assets, book value per common share, tangible common equity as a percentage of tangible assets and tangible book value per common share are non-GAAP measures that provide information to help assess our capital position and financial strength. We believe tangible book value measures improve comparability to other banking organizations that have not engaged in acquisitions that have resulted in the accumulation of goodwill and other intangible assets.

<sup>3</sup> Reported return on average tangible assets and adjusted return on average tangible assets are non-GAAP measures that provide information to help assess our profitability.

<sup>4</sup> Adjusted net income available to common stockholders and adjusted EPS are non-GAAP measures that present a summary of our earnings, which includes adjustments to exclude certain revenues and expenses (generally associated with discrete merger transactions and non-recurring strategic plans) to help in assessing our recurring profitability. For the purpose of calculating adjusted net income available for common stockholders and adjusted EPS, income tax expense is calculated using the estimated effective income tax rate for the full year in effect for the particular period end, as we believe this is a more accurate presentation of run rate income tax expense and earnings.

<sup>5</sup> Reported return on average tangible common stockholders' equity and the adjusted return on average tangible common stockholders' equity are non-GAAP measures that provide information to evaluate the use of our tangible common equity.

<sup>6</sup> The reported operating efficiency ratio is a non-GAAP measure calculated by dividing our GAAP non-interest expense by the sum of our GAAP net interest income plus GAAP non-interest income. The adjusted operating efficiency ratio is a non-GAAP measure calculated by dividing non-interest expense adjusted for intangible asset amortization and certain expenses generally associated with discrete merger transactions and non-recurring strategic plans by the sum of net interest income plus non-interest income plus the tax equivalent adjustment on securities income and elimination of the impact of gain or loss on sale of securities. The adjusted operating efficiency ratio is a measure we use to assess our operating performance.

### **Liquidity and Capital Resources**

**Capital.** Stockholders' equity was \$4.5 billion as of June 30, 2020, a decrease of \$45.9 million relative to December 31, 2019. The decrease was due to the repurchase of 4,900,759 common shares at a cost of \$81.0 million, the adoption of the CECL Standard, which reduced capital by \$54.3 million and declared dividends of \$27.4 million on common stock and \$4.4 million on preferred stock. These decreases were partially offset by net income of \$50.8 million, an increase in accumulated other comprehensive gain of \$48.4 million, which was primarily due to an increase in the fair value of our AFS portfolio, and an increase of stock option exercises and stock-based compensation of \$515 thousand.

We paid dividends of \$0.07 per common share in each quarter of 2019 and the first two quarters of 2020. Most recently, our Board of Directors declared a dividend of \$0.07 per common share on July 22, 2020, which is payable August 17, 2020 to our holders as of the record date of August 3, 2020. We paid dividends of \$16.25 per preferred share in each quarter of 2019 and the first two quarters of 2020. In addition, on July 15, 2020, we paid a dividend of \$16.25 per preferred share.

**Basel III Capital Rules.** The Basel III Capital Rules were fully phased in on January 1, 2019. The rules are discussed in Note 14. "Stockholders' Equity - Regulatory Capital Requirements" in the notes to consolidated financial statements included elsewhere in this report.

**Liquidity.** As discussed in our 2019 Form 10-K, our liquidity position is continuously monitored and we make adjustments to the balance between sources and uses of funds as deemed appropriate. Liquidity risk management is an important element in our asset/liability management process. We regularly model liquidity stress scenarios to assess potential liquidity outflows or funding problems resulting from economic activity, volatility in the financial markets, unexpected credit events or other significant occurrences. Contingencies have been expanded to include analysis of the impact to cash flows associated with outstanding forbearance agreements and other factors associated with the pandemic. These scenarios are incorporated into our contingency funding plan, which provides the basis for the identification of our liquidity needs. As of June 30, 2020, our management is not aware of any events that are reasonably likely to have a material adverse effect on our liquidity, capital resources or operations. In addition, management is not aware of any regulatory recommendations regarding liquidity, including the Basel III liquidity framework, which, if implemented, would have a material adverse effect on us.

At June 30, 2020, the Bank had \$324.7 million in cash and cash equivalents on hand and unused borrowing capacity at the FHLB of \$5.9 billion. In addition, the Bank may purchase federal funds from other institutions and enter into additional repurchase agreements. The Bank had \$2.8 billion of unencumbered securities available to pledge as collateral as of June 30, 2020. On March 15, 2020, the FRB

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reduced reserve requirements ratios to zero effective March 26, 2020, which eliminated our reserve requirement as of June 30, 2020. Prior to that time, we maintained deposits at the FRB of New York in compliance with our reserve requirements.

We are a bank holding company and do not conduct operations. Our primary sources of liquidity are dividends received from the Bank and borrowings from outside sources. Banking regulations may limit the amount of dividends that may be paid by the Bank. At June 30, 2020, the Bank had capacity to pay approximately \$81.4 million of dividends to us under regulatory guidelines without prior regulatory approval.

We had cash on hand of \$84.8 million at June 30, 2020. In the first six months of 2020, we received dividends from the Bank of \$120.0 million and our primary uses of cash were \$81.0 million for common stock repurchases, \$31.8 million for dividends and \$173.5 million for repaying the Senior Notes.

Effective August 27, 2019 we renewed our \$35.0 million credit facility with a financial institution. The use of proceeds are for general corporate purposes. The credit facility has no outstanding balance and requires us and the Bank to maintain certain ratios related to capital, non-performing assets to capital, reserves to non-performing loans and debt service coverage. We and the Bank were in compliance with all requirements at June 30, 2020. We expect to renew this facility for another year during the third quarter of 2020.

### **Item 3. Quantitative and Qualitative Disclosures about Market Risk**

Management believes that our most significant form of market risk is interest rate risk. The general objective of our interest rate risk management is to determine the appropriate level of risk given our business strategy, and then manage that risk in a manner that is consistent with our policy to limit the exposure of our net interest income to changes in market interest rates. The Bank's Asset/Liability Management Committee ("ALCO"), which consists of certain members of senior management, evaluates the interest rate risk inherent in certain assets and liabilities, our operating environment, and capital and liquidity requirements, and modifies our lending, investing and deposit gathering strategies accordingly. A committee of our Board of Directors reviews ALCO's activities and strategies, the effect of those strategies on our net interest margin, and the effect that changes in market interest rates would have on the economic value of our loan and securities portfolios, as well as the intrinsic value of our deposits and borrowings.

Management actively evaluates interest rate risk in connection with our lending, investing, and deposit activities. Management emphasizes the origination of CRE loans and C&I loans. We also invest in shorter-term securities, which generally have lower yields compared to longer-term investments. Shortening the average maturity of our interest earning assets by increasing our investments in shorter-term loans and securities may help us to better match the maturities and interest rates of our assets and liabilities, thereby reducing the exposure of our net interest income to changes in market interest rates. These strategies may adversely affect net interest income due to lower initial yields on these investments in comparison to longer-term, fixed-rate loans and investments.

Management monitors interest rate sensitivity primarily through the use of a model that simulates net interest income ("NII") under varying interest rate assumptions. Management also evaluates this sensitivity using a model that estimates the change in our and the Bank's economic value of equity ("EVE") over a range of interest rate scenarios. EVE is the present value of expected cash flows from assets, liabilities and off-balance sheet contracts. The model assumes estimated loan prepayment rates, reinvestment rates and deposit decay rates that management believes is reasonable, based on historical experience during prior interest rate changes.

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**Estimated Changes in EVE and NII.** The table below sets forth, as of June 30, 2020, the estimated changes in our (i) EVE that would result from the designated instantaneous changes in the forward rate curves; and (ii) NII that would result from the designated instantaneous changes in the U.S. Treasury yield curve. Computations of prospective effects of hypothetical interest rate changes are based on numerous assumptions including relative levels of market interest rates, loan prepayments and deposit decay, and should not be relied on as indicative of actual results.

| Interest rates<br>(basis points) | Estimated<br>EVE | Estimated change in EVE |         | Estimated<br>NII | Estimated change in NII |         |
|----------------------------------|------------------|-------------------------|---------|------------------|-------------------------|---------|
|                                  |                  | Amount                  | Percent |                  | Amount                  | Percent |
| (Dollars in thousands)           |                  |                         |         |                  |                         |         |
| +300                             | \$ 4,291,331     | \$ 645,843              | 17.7 %  | \$ 1,069,074     | \$ 173,526              | 19.4 %  |
| +200                             | 4,215,246        | 569,758                 | 15.6    | 1,011,437        | 115,889                 | 12.9    |
| +100                             | 3,997,167        | 351,679                 | 9.6     | 953,093          | 57,545                  | 6.4     |
| 0                                | 3,645,488        | —                       | —       | 895,548          | —                       | —       |
| -100                             | 3,106,298        | (539,190)               | (14.8)  | 838,521          | (57,027)                | (6.4)   |

Certain shortcomings are inherent in the methodology used in the above interest rate risk measurements. Modeling changes in EVE and NII require making certain assumptions that may or may not reflect the manner in which actual yields and costs respond to changes in market interest rates. The EVE and NII table presented above assumes that the composition of our interest-rate sensitive assets and liabilities existing at the beginning of a period remains constant over the period being measured and, accordingly, the data does not reflect any actions management may undertake in response to changes in interest rates. The table also assumes that a particular change in interest rates is reflected uniformly across the yield curve regardless of the duration to maturity or the re-pricing characteristics of specific assets and liabilities. Accordingly, although the EVE and NII table provides an indication of our sensitivity to interest rate changes at a particular point in time, such measurements are not intended to and do not provide a precise forecast of the effect of changes that market interest rates may have on our net interest income. Actual results will likely differ.

During the six months ended June 30, 2020, the federal funds target rate was lowered from 1.50 - 1.75% to 0.00 - 0.25% in an effort to mitigate the effects of COVID-19 on economic activity. U.S. Treasury yields with two year maturities decreased 142 basis points from 1.58% to 0.16% over the six months ended June 30, 2020, while the yield on U.S. Treasury 10-year notes decreased 126 basis points from 1.92% to 0.66%. The greater decrease in interest rates on short-term maturities relative to the lesser decrease in interest rates on longer-terms maturities resulted in a steeper 2-10 year U.S. Treasury yield curve at June 30, 2020 compared to December 31, 2019. At its June 2020 meeting, the Federal Open Markets Committee (the "FOMC") stated that it expects to maintain the federal funds target rate until it is confident that the economy has weathered recent events and is on-track to achieve its maximum employment and price goals. The FOMC further stated that in determining the timing adjustments to the stance of monetary policy, the Committee will assess realized and expected economic conditions relative to its maximum employment objective and its symmetric 2 percent inflation objective.

**Item 4. Controls and Procedures**

The Company's management, including the principal executive officer and principal financial officer, evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective for the purpose of ensuring that the information required to be disclosed in our reports filed with the SEC under the Securities Exchange Act of 1934, as amended, is: (i) recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms; and (ii) accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

**Changes in Internal Controls**

The adoption of the CECL Standard did result in new policies and procedures regarding, and introduced new controls over, the review of economic forecasting projections obtained from Moody's. However, the internal controls for CECL are substantially similar to the internal controls used under GAAP prior to adoption of the CECL Standard for the allowance for loan losses. As a result, we concluded there were no changes in the Company's internal controls over financial reporting during the three months ended June 30, 2020 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

## PART II

### **Item 1. Legal Proceedings**

The “Litigation” section of Note 15. “Commitments and Contingencies” in the notes to consolidated financial statements included in Part I, Item 1 is incorporated herein by reference.

### **Item 1A. Risk Factors**

For information regarding factors that could affect our business, results of operations, financial condition and liquidity, see the risk factors discussed under Part I, Item 1A of our 2019 Form 10-K.

The risk factors set forth in our 2019 Form 10-K are updated by adding the following risk factor:

The COVID-19 pandemic has impacted our business, and the ultimate impact on our business, financial position, results of operations and/or cash flows will depend on future developments, which are highly uncertain and cannot be predicted, including, but not limited to, the scope and duration of the pandemic and the actions taken by governmental authorities, our clients and our business partners in response to the pandemic.

The global pandemic resulting from the outbreak of COVID-19 has negatively impacted the global economy, disrupted global supply chains, lowered equity market valuations, created significant volatility and disruption in financial markets, and increased unemployment levels. In addition, the pandemic has resulted in temporary closures of many businesses and the institution of social distancing and sheltering in place requirements in many states and communities. Some of the risks we face from the pandemic include, but are not limited to: the health and availability of our colleagues, the financial condition of our clients and the demand for our products and services, falling interest rates, recognition of credit losses and increases in the allowance for credit losses, especially if businesses remain closed, unemployment continues to rise and clients and customers draw on their lines of credit or seek additional loans to help finance their businesses, and a significant deterioration of business conditions in our markets, particularly the New York Metro market and the New York Suburban market.

While we have not experienced a significant impact on the availability of our employees to date, given the markets we operate in, our colleagues are at risk of being exposed to COVID-19. While we have taken meaningful steps and precautions to ensure their health and well-being, COVID-19 could still impact our colleagues’ ability to work effectively and availability due to illness, quarantines, government actions, financial center closures or other reasons. In particular, our financial centers present an increased risk of exposure for our employees. If our employees are not able to work as effectively or a substantial number of employees are unable to work due to COVID-19, our business would be adversely effected.

Our clients are subject to many of the factors described above. Such events could affect the stability of our deposit base, impair the ability of borrowers to repay outstanding loans, impair the value of collateral securing loans, cause significant property damage, and result in loss of revenue. It is possible that the spread of COVID-19 may also cause delays in the willingness or ability of clients to perform, including, but not limited to, making timely payments to us, and other unpredictable events.

The pandemic has also influenced the recognition of credit losses in our loan portfolio and increased our allowance for credit losses. During the six months ended June 30, 2020, approximately \$150.0 million of the \$193.2 million provision for credit losses - loans recorded was a result of changing our forecast and model assumptions due to COVID-19. In the second quarter of 2020, we entered into \$1.7 billion of loan payment deferral agreements with borrowers. The pandemic may continue to have a material adverse effect on our loan portfolio, particularly as businesses remain closed and as more clients may need to draw on their lines of credit or seek additional loans to help finance their businesses. Similarly, because of changing economic and market conditions affecting issuers, we may be required to recognize other-than-temporary impairments in future periods on the securities we hold, as well as reductions in other comprehensive income.

The New York Metro Market and the New York Suburban Market have been disproportionately impacted by COVID-19 relative to other areas. As such, the impact on COVID-19 on us and our clients may be greater than on similar banks or bank holding companies that do not have a similar geographic concentration.

The volatility in the global capital markets resulting from the pandemic and related business conditions may restrict our access to capital and/or increase our cost of capital.

To the extent the COVID-19 pandemic adversely affects our business, financial position, results of operations and/or cash flows, it may also have the effect of heightening many of the other risks we face, including the risks described in the section entitled “Risk Factors” in our 2019 Form 10-K and any subsequent Quarterly Report on Form 10-Q.

We continue to work with our stakeholders (including colleagues, clients, and business partners) to assess, address and mitigate the impact of this global pandemic. However, we cannot predict the length and impact of the COVID-19 pandemic at this time.

The risks described in our 2019 Form 10-K are not the only risks that we encounter. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, results of operations, financial condition and/or liquidity.

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

### **Issuer Purchases of Equity Securities**

We did not purchase any of our common stock during the second quarter of 2020. We have 6,671,776 shares remaining for repurchase under our Board approved stock repurchase plan:

|                    | Total Number<br>of shares<br>(or units)<br>purchased | Average<br>price paid<br>per share<br>(or unit) | Total number of<br>shares (or units)<br>purchased as part<br>of publicly<br>announced plans<br>or programs <sup>(1)</sup> | Maximum number<br>(or approximate<br>dollar value) of<br>shares (or units)<br>that may yet be<br>purchased under the<br>plans or programs <sup>(1)</sup> |
|--------------------|--|---|---|--|
| Period (2020)      |  |   |   |  |
| April 1 — April 30 | —  | \$ —  | —   | —  |
| May 1— May 30      | —  | —   | —   | —  |
| June 1 — June 30   | —  | —   | —   | —  |
| Total              | —  | —   | —   | 6,671,776  |

<sup>(1)</sup> Repurchases may be made at management’s discretion through open market purchases and block trades in accordance with SEC and regulatory requirements. Any shares repurchased will be held as Treasury stock and made available for general corporate purposes.

## **Item 3. Defaults Upon Senior Securities**

Not Applicable.

## **Item 4. Mine Safety Disclosure**

Not Applicable.

## **Item 5. Other Information**

Not Applicable.

**Item 6. Exhibits**

| Exhibit Number | Description  |
|----------------|--|
| 3.1            | <a href="#">Amended and Restated Certificate of Incorporation of the Company (incorporated by reference to Exhibit 3.1 of the Company's Quarterly Report on Form 10-Q filed November 2, 2018).</a>   |
| 3.2            | <a href="#">Amended and Restated Bylaws of the Company (incorporated by reference to Exhibit 3.1 of the Company's Current Report on Form 8-K filed on May 24, 2017 (File No. 001-35385)).</a>  |
| 4.1            | <a href="#">Form of Common Stock Certificate of the Company (incorporated by reference to Exhibit 4.1 of the Company's Current Report on Form 8-K filed on November 1, 2013 (File No. 001-35385)).</a>   |
| 4.2            | <a href="#">Form of Corporate Governance Agreement (incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K filed on August 7, 2012 (File No. 001-35385)).</a>   |
| 4.3            | <a href="#">Deposit Agreement and specimen receipt attached as Exhibit A thereto, dated as of March 19, 2013 among Astoria Financial Corporation, Computershare Shareowner Services, LLC, as Depositary, and the holders of the depositary receipts (incorporated by reference to Exhibit 4.3 of the Company's Registration Statement on Form S-4 filed on April 5, 2017 (File No. 333-217153)).</a> |
| 4.4            | <a href="#">First Amendment to the Deposit Agreement, dated as of October 2, 2017, among Sterling Bancorp, Computershare Shareowner Services, LLC, as Depositary, and the holders of the depositary receipts (incorporated by reference to Exhibit 4.4 of the Company's Quarterly Report on Form 10-Q filed on November 3, 2017 (File No. 001-35385)).</a>   |
| 4.5            | <a href="#">Certificate of Designations of 6.50% Non-Cumulative, Perpetual Preferred Stock, Series A of Sterling Bancorp (incorporated by reference to Exhibit 3.1 of the Company's Current Report on Form 8-K filed on October 2, 2017 (File No. 001-35385)).</a>   |
| 4.6            | <a href="#">Form of Certificate of 6.5% Non-Cumulative Perpetual Preferred Stock, Series A (incorporated by reference to Exhibit 4.2 of the Company's Form 8-A12B filed on September 28, 2017 (File No. 001-35385)).</a>   |
| 31.1           | <a href="#">Certification of the Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)</a>  |
| 31.2           | <a href="#">Certification of the Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)</a>  |
| 32.0           | <a href="#">Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith)</a>   |
| 101.INS        | XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document   |
| 101.SCH        | XBRL Taxonomy Extension schema Document  |
| 101.CAL        | XBRL Taxonomy Extension Calculation Linkbase Document  |
| 101.LAB        | XBRL Taxonomy Extension Calculation Linkbase Document  |
| 101.PRE        | XBRL Taxonomy Extension Presentation Linkbase Document   |
| 101.DEF        | XBRL Taxonomy Extension Definition Linkbase Document   |

The Company agrees to furnish to the SEC, upon request, any instrument with respect to long-term debt that the Company has not filed as an exhibit pursuant to the exemption provided by Item 601(b)(4)(iii)(A) of Regulation S-K.



## SIGNATURES

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

Date: July 30, 2020

**Sterling Bancorp**

By: /s/ Jack Kopnisky

Jack Kopnisky

President, Chief Executive Officer and Director

(Principal Executive Officer)

Date: July 30, 2020

By: /s/ Luis Massiani

Luis Massiani

Senior Executive Vice President and Chief Financial Officer

(Principal Financial Officer and Principal Accounting Officer)

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## Section 2: EX-31.1 (EX-31.1)

### Exhibit 31.1

#### **Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Jack Kopnisky, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Sterling Bancorp;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the

registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
- a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 30, 2020

By: /s/ Jack Kopnisky

Jack Kopnisky

President, Chief Executive Officer and Director

(Principal Executive Officer)

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## Section 3: EX-31.2 (EX-31.2)

### Exhibit 31.2

#### **Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Luis Massiani, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Sterling Bancorp;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

- a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
- b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 30, 2020

By: /s/ Luis Massiani

Luis Massiani  
Senior Executive Vice President  
Chief Financial Officer  
Principal Accounting Officer  
(Principal Financial Officer)

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## Section 4: EX-32.0 (EX-32.0)

### Exhibit 32

#### **Certification of Principal Executive Officer and Principal Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

Jack Kopnisky, Chief Executive Officer and Luis Massiani, Chief Financial Officer of Sterling Bancorp (the "Company") each certify in his capacity as an officer of the Company that he has reviewed the Quarterly Report on Form 10-Q for the six months ended June 30, 2020 and that to the best of his knowledge:

- (1) the report fully complies with the requirements of Sections 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: July 30, 2020

By: /s/ Jack Kopnisky

Jack Kopnisky  
Chief Executive Officer, President, and Director  
(Principal Executive Officer)

Date: July 30, 2020

By: /s/ Luis Massiani

Luis Massiani  
Senior Executive Vice President  
Chief Financial Officer  
Principal Accounting Officer  
(Principal Financial Officer)

A signed original of this written statement required by Section 906 has been provided to Sterling Bancorp and will be retained by Sterling Bancorp and furnished to the Securities and Exchange Commission or its staff upon request.

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