STERLING
BANCSHARES

J. Downey Bridgwater
Chairman, President and
Chief Executive Officer

March 9, 2009

Via Email (SIGTARP.response@do.treas.gov) and Federal Express

Mr. Neil M. Barofsky
Troubled Asset Relief Program
1500 Pennsylvania Ave., NW, Suite 1064
Washington, DC 20220

Dear Mr. Barofsky:

Sterling Bank ("Sterling") is pleased to provide the following response to the information requested in your letter to me dated February 6, 2009 regarding Sterling's receipt of $125,198,000 in TARP related funding on December 12, 2008.

With regard to item (1):

(a) Sterling's primary intended purpose for the funds received is to use those funds for the extension of credit to both new and existing customers in our target markets. In addition, Sterling has and will continue to utilize the funds to purchase investment securities including mortgage backed securities and municipal bonds. During the period from December 12th thru March 4th, Sterling purchased $84,617,000 of such securities (Exhibit A).

(b) The TARP funds were not segregated from other institutional funds but were combined with Sterling's corporate accounts.

(c) Since the receipt of the TARP funds, Sterling has advanced $332,987,459 on loans, including renewals, for new and existing customers (Exhibit B). That amount includes approximately $95,995,114 in new funded loans based on new commitments of $123,209,613 which have provided our small business and commercial customers with funds to increase inventories, expand business lines, replace older equipment with newer and more efficient equipment as well as upgrade their facilities. Additionally, the funds have allowed for construction of new churches, daycare centers and additions to schools.

Also, Sterling has funded new mortgages or refinanced mortgages for the purchase of family residences totaling $6,623,921 in addition to the amounts provided above (Exhibit C).

Sterling thoroughly considers each loan request and strives to approve every reasonable loan as evidenced by our lending history.

(d) Sterling expects to use the unspent TARP funds, if any, to continue making additional extensions of credit and purchases of securities in the same or similar manner as described in (a) and (c) above.

Our use of the TARP funds has been consistent with our intended use at the time we filed our application on or about October 29, 2008. The additional capital that the TARP funds provided has made Sterling more comfortable in extending credit to both new and existing customers.

With regard to item (2):

Sterling's specific plans for addressing the original executive compensation requirements associated with the TARP funds and the status of implementation with regard to those plans includes the following:

- Requirement - Ensure that incentive compensation for senior executive officers ("SEOs") does not encourage "unnecessary and excessive risks that threaten the value of the financial institution". All compensation programs, including those for the SEOs, have been reviewed internally by the Chief Human Resource Officer and the Chief Risk Officer. Additionally, all compensation programs have been reviewed and approved by the Human Resource Programs Committee ("HRPC") of Sterling's holding company, Sterling Bancshares, Inc. ("Bancshares"), which serves as Sterling's Compensation Committee and is comprised of four independent Directors. The Committee meets a minimum of once per quarter, or four time per year. On Friday, December 19, 2008, the HRPC met with the Chief Risk Officer and outside legal counsel to discuss the risks associated with Sterling's compensation programs. After all of the various programs were discussed, the HRPC concluded that Sterling's compensation programs do not encourage Sterling's SEOs to take unnecessary and/or excessive risks. The required certification regarding compliance with Section 111(b)(2)(A) of the Emergency Economic Stabilization Act of 2008 was signed by all members of the HRPC (Exhibit D). In addition, Sterling's compensation programs are described in detail in our annual Proxy Statement. I have enclosed the compensation discussion and analysis portion of our 2009 Proxy Statement (Sterling's Preliminary Proxy Statement was filed with the Securities and Exchange Commission on March 5, 2009) with this response (Exhibit E).

- Requirement - Require the repayment or "clawback" of any bonus or incentive compensation paid to an SEO based on "statements of earnings, gains or other criteria that are later proven to be materially inaccurate". Each of the five SEOs were provided with, and acknowledged, a letter which notified them that any bonus or incentive compensation payment paid during the CPP Covered Period is subject to recovery or "clawback" by Sterling if the payment(s) was made based upon materially inaccurate financial statements or any other materially inaccurate performance metric criteria. Each SEO provided Sterling with a signed letter acknowledging his intent to be legally bound by the terms and conditions stated therein (Exhibit F).

- Requirement - Prohibit the making of any "golden parachute payment" as defined by new Code Section 280G(e) which imposes an expanded definition of the term, "golden parachute". Incorporated in the letters which the five SEOs signed was a notification of the prohibition of any golden parachute payment as defined by the new Code Section 280G(e) during any Capital Purchase Program Covered Period (Exhibit F).

- Requirement - Agree not to deduct for tax purposes executive compensation in excess of $500,000 for each SEO. At the time of its December 19, 2008 meeting, the HRPC discussed the potential limits on Sterling's ability to benefit from tax deductions under amended Section 162(m) of the Internal Revenue Code due to the reduced maximum compensation eligible for deduction and the elimination of the "performance based" exception. The tax accrual calculation for the five SEOs was modified to reflect this change, and the HRPC's discussion was documented in its report for the quarter ended December 31, 2008. This report is provided to the full Bancshares Board each quarter (Exhibit G). Additionally, each of the five SEOs signed a waiver of any claim with regard to modification of compensation or benefits, against the United States or Sterling, as the employer (Exhibit H).

Subsequent to your letter, The American Recovery and Reinvestment Act of 2009 ("the Act") was signed into law on Tuesday, February 17, 2009. The Act imposes a number of "new" restrictions on executive compensation. We are currently awaiting guidance from the Treasury, but we fully intend to comply with the guidance once it becomes available.

(b) (4) [redacted]

We have described the methodology used to implement the limitations on executive compensation pursuant to the terms of the TARP agreement. We do not plan to offset any limitations by changes to other longer-term or deferred forms of executive compensation. However, we do intend to continue paying market competitive salaries to our SEOs within the scope of the defined restrictions and with the knowledge that we will forfeit any tax deductibility beyond $500,000 per year for the SEOs.

Sincerely,

J. Downey Bridgwater

I, J. Downey Bridgwater, do hereby certify, subject to the requirements and penalties set forth in Title 18, United States Code, Section 1001, that the statements, representations and supporting information presented above are accurate.

J. Downey Bridgwater
Chairman, President and
Chief Executive Officer

Exhibit A

Exhibit A

Sterling Bank Investment Portfolio Purchases (Dec 9 to Mar 4)

Face	Current Face	Description	Insurer	Underlying	Type	F/V	Detail	Coupon	Maturity	Trade Date	Settle Date	Intent
2,000	2,000	Access Capital Community Investment Fund			CRA	NA	CRA	NA	NA	02/19/09	02/19/09	AFS
10,000	8,303	FNR 2007-43 WE			CMO	F	Seasoned	5.5%	01/25/39	12/12/08	12/17/08	AFS
20,019	16,376	FN 905596			MBS	V	7/1 ARM	6.0%	12/01/36	12/04/08	12/22/08	AFS
14,000	9,868	FN 885358			MBS	V	10/1 ARM	6.0%	07/01/36	12/09/08	12/12/08	AFS
17,000	12,739	FN 904689			MBS	V	7/1 ARM	5.7%	12/01/36	12/11/08	12/22/08	AFS
8,000	7,920	FG G05052			MBS	F	Seasoned	5.0%	10/01/33	01/21/09	02/12/09	AFS
14,374	8,893	FG C01785			MBS	F	Seasoned	5.0%	02/01/34	01/30/09	02/12/09	AFS
10,000	8,839	FG A61634			MBS	F	Seasoned	5.0%	06/01/34	02/05/09	03/12/09	AFS
1,050	1,050	FN 386464			MBS	F	CRA	5.9%	08/01/21	02/18/09	02/20/09	HTM
8,000	7,513	FN 983493			MBS	F	Seasoned	5.0%	04/01/35	03/04/09	03/12/09	AFS
440	440	Corsicana TX ISD	PSF	S&P: A+	Muni	F	Non-callable	3.0%	02/15/18	01/30/09	02/24/09	HTM
315	315	Lufkin TX ISD	PSF	Moody's: A1	Muni	F	Callable	3.5%	08/15/21	02/20/09	03/24/09	HTM
360	360	Huntington TX ISD	PSF	Moody's: Baa2	Muni	F	Non-callable	3.5%	02/15/19	02/25/09	03/26/09	HTM
105,558	**84,617**											

Exhibit B

Exhibit B

Commitments Post TARP Receipt

Dec 12, 2008 - March 04, 2009

	Advances on New Loans	New Commitments	Count	WA Yield	WA YRS Remaining	Advances on Existing Loans	Count
Loans	**95,995,114**	**118,841,839**	**591**	(b) (4) [redacted]	**4.5**	**236,655,587**	**801**
Total Loans Held for Sale		-	-		**NA**		
Total Commercial & Industrial Loans	48,864,619	63,153,697	242		2.8	172,384,722	409
Subtotal RE Commercial	19,970,338	20,185,310	23		8.4	3,975,861	36
Subtotal RE Construction & Development	5,661,769	8,896,515	18		1.1	56,169,802	220
Subtotal RE Residential Mortgages	7,879,551	10,238,780	54		12.1	3,789,012	75
Total Realestate	33,511,658	39,320,605	95		7.5	63,934,675	331
Total Consumer/Other Loans	2,239,859	2,240,091	133		3.7	336,189	61
Bank of the Hills	11,378,977	14,127,447	121		3.7		
Total Loans Held for Investment	**95,995,114**	**118,841,839**	**591**		**4.6**	**236,655,587**	**801**
Letters of Credit	**-**	**4,367,774**	**26**		**0.4**	**336,758**	**4**
Total Commitments	***95,995,114***	***123,209,613***	***617***			***236,992,345***	***805***

Exhibit C

Borrower	Loan Amt	Int Rate	Status	AUS Decision	Date Opened	Funded	Loan Term	LTV Ratio	Credit Score	Credit Score 2	Investor
	6,623,921	30									
b(4), b(6) [redacted]	417,000.00	5.375	Loan Sold	Approve Eligible	11/24/2008	12/15/2008	360	59.571	746	732	(b) (4) [redacted]
[redacted]	417,000.00	5.125	Loan Shipped	Approve Eligible	11/26/2008	12/19/2008	360	57.517	669	0	[redacted]
[redacted]	316,300.00	5.250	Loan Shipped	Approve Eligible	12/11/2008	12/29/2008	360	79.975	684	0	[redacted]
[redacted]	145,000.00	5.625	Loan Sold	APPROVE ELIGIBLE	12/01/2008	01/12/2009	360	79.235	791	0	[redacted]
[redacted]	45,000.00	5.250	Loan Sold	Approve Eligible	12/09/2008	01/13/2009	360	75.000	745	0	[redacted]
[redacted]	116,000.00	5.125	Loan Shipped	Approve Eligible	12/17/2008	01/21/2009	360	80.000	750	779	[redacted]
[redacted]	168,300.00	4.875	Loan Shipped	Approve Eligible	01/05/2009	01/26/2009	300	77.379	782	779	[redacted]
[redacted]	417,000.00	4.500	Loan Shipped	Approve Eligible	01/06/2009	01/27/2009	180	54.332	760	783	[redacted]
[redacted]	168,000.00	4.875	Loan Shipped	Approve Eligible	01/07/2009	01/27/2009	360	80.000	762	806	[redacted]
[redacted]	115,500.00	4.375	FUND	Approve Eligible	12/23/2008	01/28/2009	180	56.341	788	777	[redacted]
[redacted]	234,635.00	5.000	FUND	Approve Eligible	01/06/2009	01/30/2009	360	55.208	752	761	[redacted]
[redacted]	65,000.00	4.750	FUND	Approve Eligible	01/08/2009	01/30/2009	180	57.778	785	800	[redacted]
[redacted]	417,000.00	5.250	FUND	Approve Eligible	12/17/2008	01/30/2009	360	72.522	707	0	[redacted]
[redacted]	269,000.00	4.625	Loan Sold	Approve Eligible	01/07/2009	02/02/2009	180	76.857	723	716	[redacted]
[redacted]	328,850.00	4.750	Loan Sold	Approve Eligible	01/13/2009	02/09/2009	180	79.241	777	762	[redacted]
[redacted]	224,000.00	5.000	Loan Sold	Approve Eligible	12/23/2008	02/10/2009	360	80.000	790	0	[redacted]
[redacted]	139,680.00	4.750	Loan Sold	Approve Eligible	01/09/2009	02/10/2009	360	66.514	802	794	[redacted]
[redacted]	179,000.00	4.750	Loan Sold	Approve Eligible	01/21/2009	02/11/2009	180	22.375	800	0	[redacted]
[redacted]	261,000.00	4.500	FUND	Approve Eligible	01/23/2009	02/24/2009	360	73.521	773	786	[redacted]
[redacted]	133,100.00	5.125	FUND	Approve Eligible	01/27/2009	02/24/2009	360	66.550	681	0	[redacted]
[redacted]	303,836.00	4.500	FUND	Approve Eligible	01/28/2009	02/25/2009	180	59.227	794	781	[redacted]
[redacted]	417,000.00	5.000	FUND	Approve Eligible	01/20/2009	02/27/2009	360	64.651	716	749	[redacted]
[redacted]	78,800.00	5.000	FUND	Approve Eligible	01/21/2009	02/27/2009	360	80.000	770	0	[redacted]
[redacted]	122,500.00	4.875	FUND	Approve Eligible	01/27/2009	02/27/2009	360	71.014	751	0	[redacted]
[redacted]	240,000.00	5.125	Loan Shipped	Approve Eligible	01/26/2009	03/02/2009	180	46.154	686	721	[redacted]
[redacted]	345,000.00	4.625	Loan Shipped	Approve Eligible	12/10/2008	03/03/2009	360	58.475	739	0	[redacted]
[redacted]	196,100.00	4.625	Loan Shipped	Approve Eligible	01/12/2009	03/03/2009	360	45.605	788	674	[redacted]
[redacted]	91,920.00	5.250	FUND	Approve Eligible	02/06/2009	03/04/2009	360	80.000	801	0	[redacted]
[redacted]	59,300.00	5.000	FUND	Approve Eligible	02/11/2009	03/04/2009	360	31.543	754	755	[redacted]
[redacted]	193,100.00	4.875	FUND	Approve Eligible	02/05/2009	03/06/2009	360	77.240	808	814	[redacted]

Exhibit C

Exhibit D

CERTIFICATION REGARDING COMPLIANCE WITH SECTION 111(b)(2)(A) OF THE EMERGENCY ECONOMIC STABILIZATION ACT OF 2008

Recitals

1. Sterling Bancshares, Inc. (the "Company") issued equity to the U.S. Department of the Treasury pursuant to the Capital Purchase Program promulgated under the Emergency Economic Stabilization Act of 2008 (the "EESA"); and

2. Section 111(b)(2)(A) of the EESA requires the members of the Human Resources Policy Committee (the "HRPC") to promptly, and within no more than ninety days after the purchase occurs, meet with the Company's senior risk officers to review the incentive compensation arrangements between the Company and its "Senior Executive Officers," as described in Section 111 of the EESA (the "SEOs"), to ensure that the incentive compensation arrangements provided by the Company to the SEOs do not encourage the SEOs to take unnecessary and excessive risks that threaten the value of the Company.

3. In addition, on an annual basis the members of the HRPC must meet with the Company's senior risk officer to discuss and review the relationship between the Company's risk management policies and practices and the incentive arrangements provided to the SEOs.

Certification

As required by Section 111(b)(2)(A), the Human Resources Policy Committee of the Board of Directors of Sterling Bancshares, Inc. hereby certifies the following:

The Human Resources Policy Committee certifies that it has reviewed with the senior risk officer for Sterling Bancshares, Inc. the SEO incentive compensation arrangements and has made reasonable efforts to ensure that such arrangements do not encourage SEOs to take unnecessary and excessive risks that threaten the value of the financial institution.

George Beatty, Chairman

Raimundo Riojas

Anat Bird

Edward R. Bardgett III

Ed Bardgett

Exhibit E

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Overview of Compensation Philosophy

The Company believes that compensation of its executive officers should reflect and support its strategic goals, the primary goal being the creation of long-term value for the Company's shareholders while protecting the interests of the Company's depositors and customers. The Board of Directors seeks to ensure the Company's comprehensive, competitive compensation program supports these goals. The Company attempts to attract and retain highly skilled, qualified individuals in what has continued to be a competitive market and to link rewards for performance with shareholder return on investment and the Company's overall financial performance.

The Company relies on published external market surveys and the actual experiences of both internal and external recruiters in sourcing candidates and exit interviews with departing employees to determine appropriate base salaries. When offers are formulated for potential candidates to fill vacant positions, base salary is determined based upon:

- the needs of the Company;
- the experience, talent and skills, current earnings, and stated salary requirements of the candidate;
- the current base salaries of similarly situated individuals within the Company; and
- the reported median salaries and salary ranges for the same or similar positions as published in recent survey data.

Base salaries reflect the employee's responsibilities relative to the position and take into account individual experience and performance as well as specific issues unique to the Company and to the external market.

In order to encourage and reward quality performance on an annual basis, the Company has developed an annual cash incentive program. The program targets the market median of short-term incentive compensation for executive officers when performance meets targeted expectations. In developing this program, the Company evaluated:

- market surveys;
- benchmark data from peer banks;
- the Company's strategic initiatives; and
- potential contribution to the profitability of the Company.

In order to retain key officers and to strengthen the link between key officers, Company performance and the shareholders' interests, the Human Resources Programs Committee ("HRPC") has developed a long-term, equity-based incentive program. The Company's long-term incentive program incorporates incentive stock options and/or performance-based, phantom unit equity awards, which convert to common shares upon vesting. This program is progressive with award levels increasing over a three-year phase-in period beginning in 2007. The long-term incentive program was originally designed to provide 40% to 50% of total compensation to executive officers in the form of equity when mature. This goal assumes a stabilization in the market for bank stock.

As an additional tool to attract and retain key officers as well as provide protection to the Company, the HRPC approved a Severance and Non-Compete Agreement plan for executive team members, regional or divisional production managers, and other key company officials of acquired entities. In developing this plan, the HRPC evaluated external practices, internal risk, and the desired retention of key officers by the Company. The Company has also entered into individual Severance and Non-Compete Agreements with members of the executive team. For executive officers, the Severance and Non-Compete Agreements are a required condition of employment. Certain elements of the Severance and Non-Compete Agreements for the Named Executives were modified in connection with the Company's participation in the Capital Purchase Program of the federal government's Troubled Asset Relief Program. See "Participation in the Capital Purchase Program" below.

Role of Human Resources Programs Committee

The HRPC establishes, reviews, approves, and oversees all compensation and benefit policies, plans, and programs for the Company's Named Executives (as defined in the "Summary Compensation Table"). The 2008-2009 HRPC consists of George Beatty, Jr., Chairman, Edward R. Bardgett, Anat Bird, and Raimundo Riojas E. The HRPC reviews and approves (i) a base salary structure that is designed to be competitive by targeting pay between the 45^{th} and 65^{th} percentile of market data based upon comparisons of salary levels for executive officers of banking organizations of similar size, (ii) a short-term cash incentive compensation program that strives to closely align compensation with individual contributions and the Company's financial performance, and (iii) long-term, performance-based equity awards that are granted in phantom units, which vest in common stock, or incentive stock options; both award types create linkage between individual contribution and shareholder interests. In order to assist in this compensation review and approval process, the HRPC utilizes data from an independent compensation consultant, as well as other available resources including proxy data from publicly traded banking organizations.

Role of Consultants

The HRPC has retained Stone Partners, an independent compensation consultant who reports directly to the HRPC on an on-going basis, to assist the HRPC in the evaluation of executive compensation by providing market data, best practices information, and other consulting services. Stone Partners provides benchmark data related to base compensation, short-term incentives and long-term incentives for executive officers of banks of similar size and business focus in the U.S. market as identified by the HRPC. Stone Partners does not perform any compensation services directly for the management of the Company without the knowledge and consent of the HRPC. In addition, the Company retained Amalfi Consulting, LLC to review and provide recommendations on the Compensation Discussion and Analysis (CD&A) presented here.

Peer Group/Benchmarking

In December 2007, the HRPC selected a peer group to benchmark executive compensation and reviews that peer group annually. The original criteria that the HRPC considered in selecting the peer group included high performing, publicly traded US banks with \$3 to \$10 billion in assets, similar business focus, a market capitalization of approximately \$500 million or greater, or a competitor bank within our geographic market. The "peer banks" which met the criteria at the time of selection by the HRPC in December 2007 are presented below. We provide updated information on the current standing of each peer as of December 31, 2008 based upon average twelve-month data provided by SNL Financial LC.:

Company Name	Ticker	EPS Growth (%) 12/31/2008	ROAA(1) (%) 12/31/2008	Total Assets (\$000) 12/31/2008	Market Capitalization (\$M) 12/31/2008	Geographic Market Competitor
1st Source Corporation	SRCE	7.0	0.76	4,464,174	437.1	
BancFirst Corporation	BANF	-14.4	1.17	3,867,204	544.3	
Chemical Financial Corporation	CHFC	-48.1	0.52	3,874,313	544.6	
CoBiz Financial Inc.	COBZ	-94.8	0.05	2,684,275	111.0	
Columbia Banking System, Inc.	COLB	-83.8	0.19	3,097,079	161.5	
Cullen/Frost Bankers, Inc.	CFR	-1.4	1.51	15,034,142	2,600.6	X
CVB Financial Corp.	CVBF	4.2	0.99	6,649,651	748.6	
F.N.B. Corporation	FNB	-61.7	0.46	8,364,811	709.5	
First Busey Corporation	BUSE	-138.1	-0.36	4,482,694	314.3	
First Midwest Bancorp, Inc.	FMBI	-38.3	0.60	8,528,341	486.3	
Glacier Bancorp, Inc.	GBCI	-7.0	1.31	5,553,970	941.4	
Hancock Holding Company	HBHC	-9.7	1.02	7,167,254	869.5	
IBERIABANK Corporation	IBKC	-7.0	0.77	5,583,226	674.0	
MB Financial, Inc.	MBFI	-83.0	0.20	8,819,763	570.8	
National Penn Bancshares, Inc.	NPBC	-67.9	0.36	9,391,064	781.5	
NBT Bancorp Inc.	NBTB	19.2	1.11	5,336,088	745.0	
Park National Corporation	PRK	-39.4	0.20	7,070,720	758.0	
Prosperity Bancshares, Inc.	PRSP	-4.1	1.20	9,074,116	1,246.5	X
Provident Bankshares Corporation	PBKS	-238.0	-0.61	6,568,546	215.1	
S&T Bancorp, Inc.	STBA	0.9	1.52	4,438,368	702.7	
Susquehanna Bancshares, Inc.	SUSQ	-22.8	0.62	13,682,988	947.9	
Taylor Capital Group, Inc.	TAYC	-1,441.6	-3.27	4,388,889	71.0	
Texas Capital Bancshares, Inc.	TCBI	-20.9	0.54	5,140,212	348.7	X
United Bankshares, Inc.	UBSI	-7.0	1.09	8,102,091	911.1	
United Community Banks, Inc.	UCBI	-210.7	-0.76	8,520,765	247.3	
Western Alliance Bancorporation	WAL	-786.8	-4.55	5,243,700	293.8	
Mean		**-130.6**	**0.26**	**6,735,709**	**653.2**	
Median		**-30.5**	**0.57**	**6,075,886**	**622.4**	
Sterling Bancshares, Inc.	**SBIB**	**-27.8**	**0.80**	**5,079,979**	**407.3**	

(1) Return on Average Assets

Provident Bankshares Corporation was part of our original 2008 peer group, but since this organization has been acquired, the HRPC voted to remove it from the Company's peer group. Except for this deletion, the HRPC has elected to leave the peer group unchanged for 2009.

In addition to peer group benchmarking, the HRPC has access to pertinent, recently published surveys from Watson Wyatt, Towers Perrin, Amalfi Consulting, and Mercer and electronic compensation data from Survey.com.

Compensation Elements, Analysis and Results

The compensation program for the Company consists of various elements, including base salary, non-equity based compensation, equity-based compensation, benefits, and a severance plan. The HRPC believes that the various elements of the Company's compensation program serve to support the overall program objectives of attracting, developing and retaining key employees in order to meet the Company's strategic goals. The Company considers several factors in making decisions to materially increase or decrease compensation either at the individual level or at the organizational level. At the individual level, those items considered include:

- employee performance;
- changes in scope of responsibility;
- changes in external market conditions; and
- internal salary equity.

At the corporate level, the primary drivers of change in the compensation program include:

- external market factors;
- long-term strategic initiatives; and
- overall Company performance.

The table below describes each element of the Company's compensation program and its correlation to the Company's compensation philosophy.

Compensation Element	Compete in the Market	Retain	Reward Short-Term Performance	Reward Long-Term Performance
Base Salary	X	X		
Short-Term Incentive Plan	X		X	
LTI(1) Performance-Based Phantom Share Awards	X	X		X
LTI(1) Incentive Stock Options	X	X		X
Other Compensation and Benefits Programs	X			
Severance Plan	X	X		

(1) Long-Term Incentive Plan

Summary of 2008 Compensation Decisions

In 2008, the HRPC applied the compensation principles described above in determining the compensation of J. Downey Bridgwater, Zach L. Wasson, Sonny B. Lyles, James W. Goolsby, Jr., and John A. Rossitto (the "Named Executives"). The decisions made during the first half of the year reflected a continued competitive Texas banking environment in contrast to what was happening in other parts of the country. During the later half of the year, the Texas economy slowed and problems in other parts of the country began to negatively impact the Company's overall performance. As a result, compensation decisions made later in 2008 were more restrictive.

In summary, the compensation decisions made during 2008 for the Named Executives were as follows:

- For 2008, all five of the Named Executives were employed by the Company throughout the entire year. All five Named Executives received base salary adjustments effective April 1, 2008. The HRPC approved merit/market base salary adjustments averaging 10.43%.
- For 2008, the Named Executives earned cash incentive payments averaging 7.34% of their base compensation. The Chief Executive Officer and the Chief Risk Officer did not receive any cash incentive payments. The Company failed to achieve the ROA and EPS metrics established under the terms of the short term incentive program. However, the Chief Financial Officer and General Counsel received "Above Expectations" performance evaluations from the Chief Executive Officer. This rating generated a bonus equal to 25% of target bonus for each of these two Named Executives. The Executive Vice President of Retail Banking received a discretionary bonus of $7,500 in addition to an annual bonus of $50,000 which was guaranteed through 2008. See discussion of "Annual Incentive Compensation Decisions" below. For those three Named Executives receiving an incentive payment, the average was 15.11% of their base salaries.

- For 2008, the Named Executives, including the Chief Executive Officer, received equity-based incentives under the terms of the 2007 Long-Term Incentive Stock Performance Program of 82,000 units divided equally into 41,000 performance-based phantom units that cliff-vest at the end of 2010 based upon the Company's performance to the peer banks during the three-year period ending December 31, 2010, and 41,000 incentive stock options that time vest in equal increments over a three-year period. The exercise price of the stock options exceeded the market price at December 31, 2008. The value of the phantom stock units, if any, is based on the Company's three year performance as of December 31, 2010 compared to the defined peer group, and therefore cannot be determined until such date.
- For 2007-2009, the Chief Executive Officer entered into a new Employment Agreement effective January 1, 2007 (the "2007 Employment Agreement"). This agreement was restated in 2008 to incorporate appropriate 162(m) language into the document and to provide clarity around the definition of "Good Reason" in a Change of Control. See discussion of "Agreements, Employment Agreement—Chief Executive Officer" below.
- In 2008, the Company participated in the Capital Purchase Program of the federal government's Troubled Asset Relief Program ("TARP"). See "Participation in the Capital Purchase Program" below for the TARP impact on the Company's executive compensation.

Direct Compensation

Base Salary. In order to attract and retain the caliber of highly skilled, qualified bankers that the Company believes is necessary for continued growth, the Company targets base salaries at between the 45th and 60th percentile. Base salaries for all Named Executives were reviewed during 2008 and adjustments were approved by the HRPC. Salary adjustments, if any, for executive officers typically take place on April 1st of each year. For all executive officers, other than the Chief Executive Officer, the HRPC considered the assessments and recommendations of the Chief Executive Officer, individual executive officer performance, the dates and percentages of last increases, market and benchmark comparisons, the Company's annual performance, and the overall annual budget in approving base salary adjustments. The Chief Executive Officer's annual base salary is determined by the Executive and Risk Management Committee of the Board based upon the Board's written evaluation of the Chief Executive Officer's performance, the overall performance of the Company, market and benchmark data, and the HRPC's recommendation.

The Chief Executive Officer's 2007 Employment Agreement provides for an annual review by the HRPC of Mr. Bridgwater's base salary. Mr. Bridgwater's 2008 base salary represents a 14.29% increase over the prior year's salary of $525,000. This increase was largely the result of the examination of market data, the comparison of proxy information from the Company's peer group, the evaluation of the Company's performance related to peer and to its Strategic Plan, and the achievement under Mr. Bridgwater's leadership of steadily increasing year-over-year earnings per share growth from continuing operations. On the basis of the HRPC's review, the Named Executives' base salaries as of December 31, 2008 reflect an average 10.43% increase over their collective base salaries as of December 31, 2007.

Base Salary Decisions. All base salary adjustments for the Named Executive Officers were effective on the scheduled adjustment date of April 1st, except for the Executive Vice President of Retail Banking, who received performance-based merit raises on January 1, 2008 and April 1, 2008. The table below shows the base adjustments implemented in 2008:

Base Salary Adjustments

Name	2007 Base ($000)(1)	2008 Base ($000)(2)	Date of Increase	% Increase	Reason
J. Downey Bridgwater	$525.0	$600.0	4/1/08	14.29%	Merit/Market
Zach L. Wasson	$300.0	$350.0	4/1/08	16.67%	Merit/Market
Sonny B. Lyles	$300.0	$325.0	4/1/08	8.33%	Merit
James W. Goolsby, Jr.	$260.0	$275.0	4/1/08	5.77%	Merit
John A. Rossitto	$235.0	$250.0	1/1/08, 4/1/08	6.38%	Merit

(1) As of 4/1/07

(2) As of 4/1/08

Annual Incentive Compensation. The Named Executives may earn an annual cash bonus based upon overall Company performance meeting or exceeding predetermined metrics approved by the HRPC, and the performance evaluation of the individual executive officer's contribution. For executive officers with primary responsibility for production, such as the Executive Vice President of Retail Banking, 10% of their annual bonus potential is determined by the evaluation of overall company performance. The remaining 90% of the production executives' bonus potential is payable in quarterly incentive payments, which are earned based upon the achievement of pre-determined, measurable "key performance metrics" (KPMs), which link to performance goals for the specific production group. While production executives have a target bonus (see annual Incentive Levels as a Percent of Base Salary – John A. Rossitto), they must achieve target or there is no payout and to the extent that they exceed target, there is no cap on their bonus potential.

The HRPC annually reviews survey data to determine an appropriate target bonus as a percentage of base salary for each executive officer. Additionally, the HRPC annually evaluates and approves the performance metrics for the overall Company and for specific production groups using the Board approved Company budget as a tool. For 2007 and 2008, the Company's Board approved goals for overall Company performance consisted of a return on assets (ROA) target and an earnings per share (EPS) target. In 2006, the performance metrics selected by the Board were return on equity (ROE), earnings per share (EPS) growth, and core deposit growth.

Annual Incentive Compensation Performance Metrics for the Company

	Performance Targets			
Plan Year	Return on Assets (ROA)	Return on Equity (ROE)	Earnings Per Share (EPS)	Core Deposit Growth
2008	1.20%	NA	$0.77	NA
2007	1.20%	NA	$0.71	NA
2006	NA	12.93%	$0.66	11.1%

These performance metrics were selected after careful evaluation of the Company's strategic plan and after an assessment of those items that the HRPC believed were most important to the shareholders. In 2007, a ROE metric was determined not to be appropriate for the Company because of the Company's desire to grow through prudent acquisitions when opportunities present themselves. It was further determined that while core deposit growth is desirable, achievement of this single growth metric does not deliver a significantly better return to the shareholder than does achievement of other metrics such as loan growth and growth in non-interest income. For these reasons, it was decided that the Company's achievement of performance metrics relative to the annual approved budget in terms of both return on assets and earnings per share more closely align non-equity incentive compensation for executive officers with shareholder interests. The established Company targets for 2008 were approved by the Board in January of 2008 and were considered as aggressive and requiring a substantial effort on the part of the Named Executives because of the competitiveness in the markets, signs of potential uncertainty in the national economy, and the challenges in growing organically and through acquisition while improving the Company's operating efficiency.

Under the terms of the non-equity based incentive program, the Named Executive's base salary is multiplied by the target bonus percentage. The Company's performance on ROA and EPS is then compared to the HRPC approved, performance chart below, as is the annual evaluation of the executive officer. The points related to achievement in each of the three areas are accumulated and converted into a percentage of bonus payout by which the calculated target bonus is adjusted.

Annual Incentive Opportunity Levels as a Percent of Base Salary(1)

Name	Position	Threshold	Target	Max
J. Downey Bridgwater	Chairman, President & Chief Executive Officer	15%	60%	120%
Zach L. Wasson	Executive Vice President and Chief Financial Officer	13%	50%	88%
Sonny B. Lyles	Executive Vice President and Chief Risk Officer	13%	50%	88%
James W. Goolsby, Jr.	Executive Vice President and General Counsel	11%	45%	79%
John A. Rossitto	Executive Vice President of Retail Banking	0%	40%	Unlimited

(1) For all positions, external resources used were Watson/Wyatt—Top Management Survey, Towers Perrin—Financial Services Executive Survey, Amalfi Consulting—Commercial Lending Survey, and Salary.com.

Annual Incentive Plan Performance Measures for 2008

Return on Assets

Goal Level	Performance	Points Awarded
Threshold	1.1345% to less than 1.1945%	1
Target	1.1945% to less than 1.2545%	2
Max	1.2545% and above	3

Earnings Per Share

Goal Level	Performance	Points Awarded
Threshold	\$0.725 to less than \$0.765	1
Target	\$0.765 to less than \$0.805	2
Max	\$0.805 and above	3

Annual Job Performance Evaluation

Goal Level	Performance (on rating system of 0-5)	Points Awarded
Threshold	Acceptable (3.25 to less than 4.00)	1
Target	Meets Expectations (4.00 to less than 4.75)	2
Max	Above Expectations (4.75 and above)	3

How Points Earned For the Year Tie to Incentive Payouts

Total Points Earned for All Three Measures	Bonus Payout Result
Less than 3 points	No Payout
3 points (Threshold)	25% of Target
4 points	50% of Target
5 points	75% of Target
6 points (Target)	**Target Bonus Paid**
7 points	125% of Target
8 points	150% of Target
9 points for Non-CEOs (Max)	175% of Target
9 points for CEO (Max)	200% of Target

For the Executive Vice President of Retail Banking, the potential annual incentive is determined by two components. The overall Company performance, measured as described above, accounts for 10% of the potential bonus, and the remaining 90% of his bonus potential is determined based upon the Retail Banking Group's achievement of weighted key performance metric goals. For 2008, the weighted key performance metric goals were: (i) growth in average core deposits over the previous end-of-year baseline (45%), (ii) growth in average consumer loan growth over the previous end-of-year baseline (30%), and (iii) new checking accounts opened in relationship to goal (25%). The Executive Vice President of Retail Banking does not have a reduction component for less than acceptable asset quality embedded in his final payout calculation because all loans are required to be scored by the retail bankers.

Annual Incentive Compensation Decisions. For 2008, the Named Executives' incentive bonuses were designed to be determined by the Company's level of achievement in the areas of: (i) return on assets, and (ii) earnings per share, together with the Chief Executive Officer's evaluation of their individual performance. The Chief Executive Officer's incentive bonus was determined by the same performance metrics, but the performance evaluation was completed by the Board. In 2008, the Company did not achieve a return on assets of 1.20% or earnings per share of $.77. With regard to assessment of personal/individual performances, two of the Named Executives, the Chief Financial Officer and the General Counsel, did receive the maximum overall performance rating of "Above Expectations". This evaluation resulted in the awarding of 3 points and created a threshold bonus potential of 25% of the individual target bonus for these two Named Executives.

Performance Results for the Company-Wide Goals

	Performance Targets		Actual Results		
Plan Year	Return on Assets (ROA)	Earnings Per Share (EPS)	Return on Assets (ROA)	Earnings Per Share (EPS)	Total Points Earned
2008	1.20%	$0.77	0.80%	$0.52	0
2007	1.20%	$0.71	1.22%	$0.72	5

The Executive Vice President of Retail Banking was employed at the beginning of 2006 to develop and effectively implement a retail strategy for the Company. Because this initiative amounted to a start-up program for the Company, bonuses payments were guaranteed for the first three years, or through 2008. The Executive Vice President of Retail Banking was also awarded a discretionary bonus of $7,500 in 2008.

The table below shows the 2008 annual incentive/bonus payments paid to the Named Executives under the performance metrics or under any other type of cash bonus guarantee or program.

Payout Results of the 2008 Annual Incentive Plan/Bonus Guarantee

		Payouts as a Percent of Base Salary		
Name	**Position**	**Target Payout**	**Actual Payout**	**Paid Incentive/ Bonus ($)**
J. Downey Bridgwater	Chairman, President & Chief Executive Officer	60%	0%	$ 0
Zach L. Wasson	Executive Vice President and Chief Financial Officer	50%	12.50%	$43,750
Sonny B. Lyles	Executive Vice President, Chief Risk Officer	50%	0%	$ 0
James W. Goolsby, Jr.	Executive Vice President and General Counsel	45%	11.25%	$30,938
John A. Rossitto.	Executive Vice President of Retail Banking	40%	23.00%	$57,500

Please see "Participation in the Capital Purchase Program" below for the TARP impact on executive compensation.

Long-Term Incentive Compensation. Under the terms of the 2007 Long-Term Incentive (LTI) Stock Performance Program (the "Program") effective September 1, 2007, each executive officer position and the position of Chief Executive Officer, is eligible for a specific, progressive target award established in relationship to the external market, internal equity, and affordability. The HRPC has the discretion to increase or decrease award amounts. All stock awards at the executive Program level are comprised of 50% performance-based phantom stock units and 50% incentive stock options. All of the stock available for award in this Program is part of the shareholder-approved 2003 Stock Incentive and Compensation Plan.

The achievement metrics for the performance-based phantom stock units are average return on assets and average earnings per share growth over a three-year performance vesting period relative to the peer group of financial institutions described in the "Peer Group Benchmarking" above. The three-year performance vesting period is measured in calendar years, with the first year of the performance vesting period being the year in which the award is granted. The three-year performance metrics and the peer group designation are subject to annual approval by the HRPC. Performance results are scaled so that recipients will receive:

- no award if minimally acceptable results are not achieved;
- a partial award in the event that minimally acceptable results, but not desired results are achieved;
- a full award if the desired results are achieved; or
- an enhanced award in the event that better than the desired results are achieved.

The phantom stock portion of the award cliff vests at the end of the three-year period and only to the extent that average comparative performance metrics at the end of that three-year period have been achieved. Prior to vesting, phantom shares are not entitled to dividends or voting rights. At the time of vesting, one phantom stock unit yields one share of Company common stock. The table below illustrates the vesting potential for the performance-based phantom units based upon the Company's combined performance metrics relative to the designated peer group over a three-year period:

STERLING BANCSHARES, INC.

PERFORMANCE BASED PHANTOM STOCK UNITS VESTING TABLE

Return on Assets Sterling Bank Performance Vs. PEERS		Earnings per Share Growth Sterling Bank Performance Vs. PEERS		
Percentile Rank	**Percent of PSU Vested**	**Percentile Rank**	**Percent of PSU Vested**	**Percent of award based on performance results**
0-29.99%tile	0%	0-29.99%tile	0%	0%
30-34.99%tile	10%	30-34.99%tile	10%	20%
35-39.99%tile	25%	35-39.99%tile	25%	50%
40-49.99%tile	40%	40-49.99%tile	40%	80%
50-64.99%tile	50%	50-64.99%tile	50%	100%
65-74.99%tile	75%	65-74.99%tile	75%	150%
75%tile or higher	100%	75%tile or higher	100%	200%

The incentive stock options are intended to comply with the requirements of Section 422 of the Internal Revenue Code of 1986, as amended, or any successor section of the Code, so as to entitle the recipient to favorable tax treatment. The incentive stock options time vest in equal increments over a three-year period and vest independently from the performance-based phantom stock units. Vested, but unexercised options expire 10 years after the date of the grant, or thirty-days following termination of the recipient's employment. Each new award is treated separately for vesting purposes.

The value or lack of value realized from at-risk awards granted in prior years is not taken into account by the HRPC in the process of setting compensation for the current year. The HRPC believes that doing so would be inconsistent with the underlying reasons for the use of at-risk compensation. If current year awards were increased to recover from below-target performance in prior years or decreased to account for above-target performance in prior years, the HRPC would be diluting or eliminating the link between performance and reward. Recipients would have little incentive to improve performance if it resulted in decreased target awards in the future, or if the negative consequences for poor performance would be cushioned by increases in the target value of future awards. Additionally, the value realized from equity-based awards granted in prior periods depends in large measure on when the recipient decides to realize that value by exercising options or by selling vested shares of stock. The HRPC does not believe it would be appropriate to adjust future grants in light of these types of individual decisions.

Long-Term Incentive Compensation Decisions. In 2008, the Company granted a total of 82,000 stock awards to the five Named Executives pursuant to the 2007 Long-Term Incentive (LTI) Program. These awards were divided equally between 41,000 incentive stock options and 41,000 phantom units, which vest over a three-year period. The vesting schedule for the phantom units is based upon the scaled comparative performance metrics for return on assets and earning per share growth at the end of the three-year period ending December 31, 2010, and yields shares of the Company's common stock upon vesting. The incentive stock options that were awarded will time vest in equal increments over a three-year period. There were no immediate vesting grants awarded in 2008.

Name	2008 Total LTI Award	Performance-Based Phantom Stock Units	Immediate Vesting Grant	Time-Vesting Incentive Stock Options
J. Downey Bridgwater	30,000	15,000	—	15,000
Zach L. Wasson	12,000	6,000	—	6,000
Sonny B. Lyles	12,000	6,000	—	6,000
James W. Goolsby, Jr.	16,000	8,000	—	8,000
John A. Rossitto	12,000	6,000	—	6,000

Please see "Participation in the Capital Purchase Program" below for the TARP impact on executive compensation.

Total Direct Compensation. For 2008, performance-based pay levels equaled an average amount equivalent to 68.60% of the annual base compensation of the Named Executives. For purposes of this calculation, performance-based pay is defined as incentive cash bonuses, both earned and guaranteed, and equity awards granted during 2008, both immediate grants, if any, and vesting grants. In the case of the Chief Executive Officer, performance-based pay also includes $701,875, which is the 2008 accrual of the expense associated with that portion of the 187,500 phantom stock units awarded him under the terms of his 2007 Employment Agreement. These 187,500 phantom stock units are due to vest in common stock at the end of the 2007 Employment Agreement period. (See discussion of "Agreements, Employment Agreement—Chief Executive Officer" below.) Because the FAS 123R requires that this annual accrual for the phantom stock award be made based upon the stock value at the time of the award, the Chief Executive Officer's 2008 performance-based pay as a percentage of his 2008 base salary is 134.56%. However, as with all financial institution stock, the current value of the Company's stock is substantially lower than it was at the time of the award. If the accrual for the 187,500 phantom stock units awarded to the Chief Executive Officer under the terms of his 2007 Employment Agreement is excluded from the 2008 performance-base pay calculation, then the Chief Executive Officer's 2008 performance-base pay as a percentage of his 2008 base salary is 17.73%, not 134.56%; and the average for all Named Executives becomes 30.15%, not 68.60%.

Indirect Compensation

Various employee benefits assist the Company in attracting and retaining employees in a competitive labor market. The HRPC reviews benefit plans annually. The HRPC may recommend that the Company implement certain changes to existing plans or adopt new benefits. The HRPC strives to meet the market median with respect to the Company's benefits and limits the number of "special" executive programs.

Health and Welfare Benefits. The Company offers a standard range of health and welfare benefits to all employees including executive officers. The benefits include: medical, prescription drug, vision and dental coverages, life insurance, accidental death and dismemberment, business travel and accident, long-term disability insurance, flexible spending accounts, health savings accounts and various voluntary programs including long-term care insurance. Executive officers participate in these employee benefit plans on the same terms as similarly situated, non-executive employees.

Employee Savings Plan. The Company believes that creating an opportunity for financial security during retirement is an important component in employee engagement and retention. To that end, the Company's Named Executives (as defined in the "Summary Compensation Table"), participate in the Company-wide Employee Savings Plan (the "Savings Plan"). For 2008, this Savings Plan consisted of two components—a 401(k) component and a profit sharing component. The 401(k) plan allows employees to defer up to 25% of their eligible income, and the Company matches the employee contribution at $.50 on the $1.00 for the first 6% of eligible compensation that an employee may elect to contribute to the Savings Plan. The Company's matching contribution is made each payroll period and is invested in shares of its common stock. The Company funds the profit sharing component at 5% of the Company's pre-tax income if the Company meets or exceeds the return on assets (ROA) and earnings per share (EPS) growth targets that are approved by the Board in the annual budgeting process. Should the Company achieve one of the metrics, but not the other, then 2.5% of the bank's pre-tax income will be used to fund the pool for the profit sharing component. This pool is then reduced by the amount that the Company contributed to the Savings Plan related to the employer matching 401(k) contributions. The remaining pool is paid into the Savings Plan accounts of all eligible participants equitably as a percent of salary. There was no profit sharing contribution for 2008. For 2009, the profit sharing component of the Savings Plan has been eliminated and the Company will match the employee contributions dollar-for-dollar for the first 5% of eligible compensation that an employee may elect to contribute to the Savings Plan.

All of the Named Executives, including the Chief Executive Officer, are eligible to participate on the same basis as any other employee in both the 401(k) employer match component and the profit sharing component of the Savings Plan. Regulatory restrictions and plan terms are equitably applied to all plan participants. The amounts contributed to the Savings Plan on behalf of the Named Executives are nominal when evaluated as a percentage of base salary. The contributions are listed in the All Other Compensation – Supplemental Table following the Summary Compensation Table below.

Deferred Compensation Plan. Consistent with the Company's desire to provide retirement savings opportunities for our key employees, in 1996 the Company adopted the Sterling Bancshares, Inc. Deferred Compensation Plan (the "Deferred Compensation Plan"). The Deferred Compensation Plan is a Non-Qualified Plan that enables eligible participants, including our Named Executives, to make an election, prior to the beginning of each calendar year, to defer from 5% up to 90% of their base salary/commissions, annual bonus, and/or special bonus awards, if any. While a participant is 100% vested in all deferrals, the deferrals are treated as unsecured liabilities of the Company.

The Deferred Compensation Plan was amended October 1, 2007, so that deferred amounts are indexed to one or more hypothetical or "deemed" investments individually chosen by the participant from the hypothetical investment funds under the Plan, which, with the exception of targeted retirement funds, mirror the investment options under the Company's 401(k) plan. No contributions were made to the Deferred Compensation Plan on behalf of the Named Executives in 2008, and the plan was amended to comply with the requirements of Section 409A of the Internal Revenue Code.

Stock Purchase Plan. The 2004 Employee Stock Purchase Plan allows all employees who are employed for more than 20 hours per week and meet the minimum length-of-service requirements of three months, including our Named Executives, to participate in a stock purchase program by authorizing the Company to withhold a fixed dollar amount from each payroll to purchase common stock at a 10% discounted price. The Employee Stock Purchase Plan is subscribed through payroll deductions which may not exceed 10% of the eligible employee's compensation. The purchase price for shares available under the Purchase Plan is 90% of the lower of the fair market value on either the first or last day of each quarter.

Severance and Non-Competition Agreements. Severance and non-competition agreements exist with four of the five Named Executives including: Mr. Wasson, effective December 4, 2006; Mr. Lyles, effective May 2, 2005; Mr. Goolsby effective June 1, 2004; and Mr. Rossitto, effective January 26, 2006. Pursuant to their respective agreements and in consideration of the covenants contained in each agreement, Mr. Wasson was granted 7,500 shares of the Company's common stock, effective January 1, 2007, with a tax equalization bonus to cover his tax obligation on the shares and a $50,000 execution bonus. Mr. Lyles was granted 12,000 common shares, 4,500 of which vested immediately and 7,500 of which vest over a four-year period, and a $75,000 execution bonus; Mr. Goolsby was granted 3,000 common shares; and Mr. Rossitto was granted 5,000 common shares with a tax equalization bonus to cover his tax obligation on the shares and a $75,000 execution bonus. Severance and non-competition components were also incorporated into Mr. Bridgwater's 2007 Employment Agreement, which is discussed below.

In general, the Severance and Non-Compete Agreement prohibits the Named Executive from working for a competitor within a defined territory for a period of twelve months after leaving the employment of the Company, prohibits the solicitation of customers and/or employees from the Company, and binds the Named Executive to protect the Company's confidential information. These agreements provide for the following severance payments and benefits upon a termination of employment under the circumstances described below: (i) two years' base pay payable in equal installments in accordance with the Company's regular pay period; (ii) an annual bonus for two years in an amount equal to the highest annual bonus paid to the respective Named Executive during the three years preceding termination or change in control (as defined in the agreement); (iii) continued eligibility for Company perquisites, welfare and life insurance benefit plans, to the extent permitted, and in the event participation is not permitted, payment of the costs of such welfare benefits for a period of two years following termination of employment; (iv) payment of up to $20,000 in job placement fees; and; (v) to the extent permitted by law or the applicable plan, accelerated vesting and termination of all forfeiture provisions under all benefit plans, options, stock grants or other similar awards.

To become eligible for such severance benefits, either (i) the Company must terminate the Named Executive's employment prior to any change in control for any reason other than cause, disability (as such terms are defined in the agreement) or death; or (ii) following a change in control, either the Company (or its successor) for any reason other than cause, disability or death, or the Named Executive for good reason (as defined in the agreement), terminate the Named Executive's employment within two years of the change in control, or the Company (or its successor) otherwise terminate the Named Executive's employment after such two year period for any reason other than cause, disability or death.

As a result of the Company's participation in the CPP, each of the Named Executives has executed a written agreement which imposes limits on the payments he may receive in connection with a change of control.

See the Severance Benefits Table under "Potential Payments Upon Termination or Change in Control" below for the value associated with the severance arrangements of the Named Executives. Additionally, please see "Participation in the Capital Purchase Program" below for the TARP impact on executive compensation. All of these Severance and Non-Competition Agreements were amended in 2008 to fully comply with Section 409A of the Internal Revenue Code.

Perquisites and other Personal Benefits. In order to attract and retain key officers, the HRPC approves certain perquisites for those officers whose job duties or positions justify a business need for such items. Perquisites for certain executive officers include Company-owned vehicles or a fixed monthly mileage allowance, monthly club membership dues, annual physical exams, and relocation expenses when warranted. In developing our guidelines for the administration of these various programs, the Company evaluates its internal practices in relation to those of other financial institutions. Additionally, the Company looks at the job requirements of various positions and the anticipated business use of such perquisites. See "Summary Compensation Table" for values associated with these perquisites and other personal benefits for the Named Executives. Continuation of these perquisites will be subject to the policy on luxury expenditures that will be adopted by our Board of Directors as required by the ARRA. For additional information regarding these limits, please see "Participation in the Capital Purchase Program" below.

Bank-owned vehicles or fixed mileage allowance. All of the Named Executives receive either a bank-owned vehicle or a fixed mileage allowance. Over the next four years, this practice will be phased out for all positions except the Chairman, CEO and President position(s). The direct or imputed income associated with this benefit is nominal when evaluated as a percentage of the Named Executive's base salary. The income associated with this perquisite is listed in the All Other Compensation—Supplemental Table following the Summary Compensation Table below.

Relocation. No relocation expense was incurred for any of the Named Executives during 2008.

Club Memberships. All of the Named Executives are eligible to receive reimbursement of monthly club membership dues to a social club suitable for entertaining customers and prospects. The costs associated with this perquisite are nominal when evaluated as a percentage of base salary. In 2008, the Chief Financial Officer elected to join a social club and was reimbursed for the initiation fee in accordance with the terms of his original letter dated 2006 offering employment with the Company. See the All Other Compensation—Supplemental Table following the Summary Compensation Table below.

Executive Compensation Policies

Equity Ownership Guidelines. Because the Company believes that it is vitally important to ensure that key officers and directors have a personal wealth interest in the performance of the Company, the HRPC developed equity ownership guidelines for the executive team and worked with the Corporate Governance and Nominating Committee to develop equity ownership guidelines for directors as well. These equity ownership guidelines received approval from the Board at its January 2007 meeting.

Equity ownership guidelines require that executive team members own Sterling Bancshares common stock as a multiple of base salary. Executive team members have five years from their date of hire, date of promotion, or from the Board approval of these guidelines (January 2007), whichever occurs later, in which to achieve the required equity ownership. For purposes of determining stock ownership, unvested phantom grants (at target grant levels) are included, as are shares held in the Employee Savings Plan, the Deferred Compensation Plan, and the Employee Stock Purchase Plan. Stock options are not included. Ownership requirements as a multiple of base salary are as follows:

- J. Downey Bridgwater—Five times base salary
- All Other Named Executives—Three times base salary

At this time, none of the Named Executives meet the equity ownership guidelines; however, each has until January 2012 in which to do so. The following table shows the equity ownership of the Named Executive Officers as of December 31, 2008.

Company Equity Ownership

Name	Position	2008 (# of shares)	Date for Completion of Equity Ownership
J. Downey Bridgwater	Chairman, President & Chief Executive Officer	203,570	1/2012
Zach L. Wasson	Executive Vice President and Chief Financial Officer	58,174	1/2012
Sonny B. Lyles	Executive Vice President and Chief Risk Officer	51,622	1/2012
James W. Goolsby, Jr. ...	Executive Vice President and General Counsel	54,008	1/2012
John A. Rossitto.	Executive Vice President of Retail Banking	17,562	1/2012

Equity ownership guidelines require that non-employee directors own the Company's common stock valued at a minimum of $100,000. Non-employee directors have three years from the date of their election to the Board or three years from the approval of these guidelines (January 2007), whichever occurs later, in which to achieve the required equity ownership.

The HRPC reviews individual compliance with the established equity ownership guidelines annually.

Securities Trading Policy. The Board has adopted an Insider Trading and Confidentiality Policy. The provisions of this policy expressly prohibit directors, officers or other employees from trading, either directly or indirectly, after becoming aware of material nonpublic information related to the Company. To further ensure adherence with this policy, guidelines have been established for blackout periods and for appropriate disclosure of internal information to external parties. The insider trading policy provides guidance as to what constitutes material information and when information becomes public. The insider trading policy addresses transactions by family members and under Bank plans, as well as other transactions which may be prohibited, such as: short-term trading, short sales, publicly trading in options, hedging transactions, margin purchases, and post-termination transactions. The policy discusses the consequences of an insider trading violation, additional trading restrictions, and certain reporting requirements applicable to directors, officers and designated key employees. The Company's General Counsel or the Chief Financial Officer offers direction to employees on compliance with this policy. The policy requires all senior officers, including all Named Executives, to provide annual, written certification of their understanding and intent to comply with the policy.

Recoupment of Equity Awards Policy. The Chief Executive Officer's 2007 Employment Agreement provides that in the event Mr. Bridgwater receives stock in conjunction with the evaluation of the Company's performance and the Company subsequently has to file a formal restatement with the SEC, and as a result of the restatement, the Board determines that some portion of Mr. Bridgwater's stock award was not properly vested due to a change in actual performance metrics, the Company is entitled to recoup the excess equity award. For additional information regarding the recoupment of awards, both equity and incentive for all Named Executives, please see "Participation in the Capital Purchase Program" below.

Policy on the Re-pricing of Stock Options. Stock Options are granted at the fair market value on the date of the grant and are not subject to re-pricing.

Policy on Timing Stock Award. The timing of stock awards under an established plan must be consistent with program guidelines. In almost every instance, the HRPC will approve any stock award prior to the granting of such an award. Stock option awards must be approved by the HRPC and should always be dated subsequent to the HRPC approval date.

Policy on Hedging the Economic Risks of Equity Ownership. There is no policy regarding hedging the economic risks of equity ownership for the executive team or directors of the Company and the Company does not engage in this practice.

Recoupment of Incentives Policy. The Chief Executive Officer's 2007 Employment Agreement provides that in the event Mr. Bridgwater receives payment of performance-based cash bonuses and the Company subsequently has to file a formal restatement with the SEC, and as a result of the restatement, the Board determines that some portion of Mr. Bridgwater's performance-based cash award should not have been paid due to a change in actual performance metrics, the Company is entitled to recoup the excess cash award. For additional information regarding the recoupment of awards, both equity and incentive for all Named Executives, please see "Participation in the Capital Purchase Program" below.

Policy on Deductibility of Compensation Over $1 Million. Unless compensation is performance based, Section 162(m) of the Internal Revenue Code, enacted in 1993, imposes a limit of $1 million on the amount that a publicly held corporation may deduct in any year for the compensation paid or accrued with respect to its chief executive officer and each of its four other most highly compensated executive officers. While the HRPC cannot predict with certainty how the Company's executive compensation might be affected in the future by Section 162(m) or applicable tax regulations issued, the HRPC would like to preserve the tax deductibility of all executive compensation while maintaining the Company's executive compensation program as described in this Compensation Discussion and Analysis. As a result of the Company's participation in TARP (see discussion below), the Company will be subject to amendments to Section 162(m) which limit the deductibility of all compensation, including performance based compensation, to $500,000 per executive with respect to any taxable year during which the U.S. Treasury retains its TARP investment in the Company. TARP provides for application of the $500,000 limitation on a pro rata basis with respect to calendar years during which the Treasury Department held its investment for less than the full year, as was the case in 2008 when the Treasury Department held the investment in the Company for less than one month.

When the Company's Board of Directors determined to participate in the TARP Program, it was aware of, factored into its analysis and agreed to, the potential increased after-tax cost of its executive compensation program that would arise because of the TARP Program's $500,000 deduction limitation. However, and especially with the limitations imposed upon executive compensation by participation in the Capital Purchase Program (see discussion below), the HRPC realizes that executive compensation must remain competitive and aligned with shareholder interests, which may result in the Company providing compensation to the Named Executives that is not always deductible. HRPC contends that retaining the right leadership is of greater shareholder value than achieving 100% deductibility of all executive compensation at all times.

Policies on the Impact of Accounting/Tax Treatments on any Elements of Compensation. The Company's stock-based compensation policy applies to all forms of stock-based compensation including stock options, restricted stock units, shares acquired under the Employee Stock Purchase Plan and performance based phantom units. All stock-based compensation is accounted for under the fair-value method as required by generally accepted accounting principles in the United States. The expense associated with stock based compensation is recognized over the vesting period of each individual arrangement.

The fair value of each stock option award is estimated on the date of grant using a Black-Scholes-Merton option valuation model. The fair value of restricted stock and phantom stock units is based on the fair value at the date of grant. The fair value of each performance based share unit is estimated based on expected performance goals being attained.

Compensation expense associated with the Employee Stock Purchase Plan is determined using a Black-Scholes-Merton option pricing formula.

Participation in the Capital Purchase Program. The Company elected to accept $125,000,000 of capital made available under the Capital Purchase Program ("CPP") of the federal government's Troubled Asset Relief Program ("TARP"). Receipt of these funds further strengthens a well-capitalized financial institution and provides assurance of the Company's ability to continue to grow and to meet the financial needs of the markets in which it operates. As a result of the Company's participation in the CPP, the Named Executives have executed agreements which acknowledge their acceptance of limitations on any "golden parachute" payments and the expansion of "clawback" provisions to encompass bonus and incentive compensation payments that are made based upon information which later proves to be materially inaccurate. Additionally, the Named Executives have also executed waivers which relinquish their rights to pursue legal action against the United States or the Company as a result of any monetary loss that they might incur as a result of these restrictions. In addition, the Company's tax deducibility for a portion of the compensation payable to the Named Executives will be limited. The HRPC has reviewed the Company's compensation programs with the Chief Risk Officer to ensure that none of the programs encourage unnecessary or excessive risk to the Company and has evaluated the impact of the imposition of a reduced compensation deduction for certain payments to the Named Executives.

The American Recovery and Reinvestment Act of 2009 ("ARRA"), which was signed into law on February 17, 2009, imposes additional compensation restrictions and corporate governance standards on TARP recipients. The ARRA amends, among other things, TARP by directing the U.S. Treasury Department to issue regulations implementing strict limitations on compensation paid or accrued by TARP recipients. Limitations are to include:

- A prohibition on paying or accruing bonus, incentive or retention compensation for at least the five most highly compensated employees, other than certain awards of long-term restricted stock or bonuses payable under existing employment agreements;
- A prohibition on making any "golden parachute" payments to the five highest paid executive officers and the next five most highly compensated employees for departure from the Company other than compensation earned for services rendered or accrued benefits;

- Subjecting bonus, incentive and retention payments made to the five highest paid executive officers and the next 20 most highly compensated employees to a "clawback" if based on statements of earnings, revenues, gains or other criteria that are later found to be materially inaccurate;
- A prohibition on any compensation plan that would encourage manipulation of reported earnings;
- Adoption by the Company's Board of Directors of a company-wide policy regarding excessive or luxury expenditures including office and facility renovations, aviation or other transportation services and other activities or events that are not reasonable expenditures for staff development, reasonable performance incentives or similar measures in the ordinary course of business;
- Submitting a "say-on-pay" proposal to a non-biding vote of shareholders at future annual meetings, whereby shareholders vote to approve the compensation of executives as disclosed pursuant to the executive compensation disclosures included in the proxy statement; and
- A review by the U.S. Department of Treasury of any bonus, retention awards or other compensation paid to the five highest paid executive officers and the next 20 most highly compensated employees prior to February 17, 2009 to determine if such payments were excessive and negotiate for the reimbursement of such excess payments.

The Company is currently awaiting issuance of guidance from the U.S. Department of the Treasury, but intends to fully comply with such guidance once it becomes available.

Agreements

Employment Agreement—Chief Executive Officer

The Chairman, President and Chief Executive Officer of the Company, J. Downey Bridgwater, is the only executive officer with an employment agreement. The 2007 Employment Agreement with Mr. Bridgwater was entered into effective January 1, 2007 and extends through December 31, 2009, subject to earlier termination under certain circumstances.

Mr. Bridgwater's 2007 Employment Agreement provided for an initial base salary and made his base salary subject to annual review by the HRPC. In determining the amount and form of Mr. Bridgwater's annual base salary, bonus and contributions for fiscal year 2008, the HRPC took into account the Company's financial performance during 2007 and the satisfaction of certain financial goals for such period, the effectiveness and quality of Mr. Bridgwater's leadership of the Company in a difficult economic environment and, in particular, Mr. Bridgwater's ongoing efforts to implement the Company's business and growth strategies. The Company believes that Mr. Bridgwater's total compensation is reasonable and competitive based upon compensation survey data and comparable performance information.

The 2007 Employment Agreement provides Mr. Bridgwater with consideration for an annual performance bonus described in the "Annual Incentive Compensation" above. The 2007 Employment Agreement reaffirms the granting of the 187,500 phantom stock units awarded Mr. Bridgwater under the terms of his previous employment agreement. However, while the vesting date (December 31, 2009) for these phantom stock units to vest remains unchanged, the performance period has been shortened to three years as a result of the restatement of Mr. Bridgwater's employment agreement, and the phantom stock units now vest based on the Company's performance compared to its peer group for the period from January 1, 2007, through December 31, 2009. The metrics used are the same as those used under the Company's Long Term Incentive (LTI) Stock Performance Program (see discussed in the analysis of the Compensation Elements, specifically the "Long-Term Incentive Compensation" section above). The Company will issue one Bonus Share (common stock share) under the 2003 Stock Incentive and Compensation Plan for each vested phantom stock unit. Additionally, the vesting is dependent upon Mr. Bridgwater remaining continuously employed by the Company during this period which continues his employment contract through December 31, 2009 except in the event of a change in control, in which case the 187,500 phantom stock units will immediately vest.

In the event the Chief Executive Officer receives performance-based cash bonuses or phantom stock units and there is a subsequent restatement of the Company's previously filed financial statements whereby it is determined that some portion of the performance-based cash bonuses or phantom stock units should not have been paid based upon the restated performance results, the Chief Executive Officer must return such performance-based cash bonuses or phantom stock units to the Company. However, during the period of time that the Company is a CPP participant, this clawback provision is expanded by a subsequent agreement to comply with the TARP requirements.

Mr. Bridgwater's 2007 Employment Agreement contains provisions for severance payments in the case of Mr. Bridgwater's termination of employment prior to the expiration of the employment term. If the Company terminates Mr. Bridgwater's employment without cause, or if Mr. Bridgwater voluntarily terminates his employment based on a material breach by the Company of a material provision of the 2007 Employment Agreement prior to the expiration of the employment term and prior to a change in control, the Company will be obligated to make a lump sum cash payment in an amount equal to the aggregate base salary that Mr. Bridgwater would have earned during the remainder of the employment term and to continue the provision of benefits, including a car allowance, health and welfare benefits, club dues, banking services without service charges, participation in the Company's deferred compensation, employee stock purchase, and employee savings plan programs, payment of up to $50,000 for job placement efforts, and immediate vesting in all Company plans that require a vesting period, through the employment term of his 2007 Employment Agreement. Mr. Bridgwater will also be entitled to receive a pro rata portion of the 187,500 performance shares as described in the 2007 Employment Agreement as follows:

Year of Termination of Employment	Cumulative Bonus Shares Issued
2007	62,500
2008	125,000
2009	187,500

If, in conjunction with a change in control, Mr. Bridgwater's employment is not continued by the surviving company in substantially the same or a reasonably equivalent position, or if Mr. Bridgwater terminates his employment for "good cause," the Company or the successor company will be obligated to pay Mr. Bridgwater a lump sum cash payment equal to three times his base salary and cash bonus as calculated pursuant to the 2007 Employment Agreement and will be obligated to continue benefits through the remainder of the employment term or three years after the change in control, whichever is greater. Furthermore, if there is a change in control prior to the expiration of the employment term, Mr. Bridgwater's right to receive the 187,500 performance shares of common stock previously referenced shall automatically accelerate. As stated above (see "Participation in the Capital Purchase Program"), Mr. Bridgwater has executed an agreement which acknowledges his acceptance of limitations on any "golden parachute" payment. Additionally, the ARRA further limits any "golden parachute" payments to Mr. Bridgwater. Mr. Bridgwater has also executed a waiver by which he relinquishes his right to pursue legal action against the United States or the Company as a result of any monetary loss that he might incur as a result of the TARP imposed restrictions.

Pursuant to his 2007 Employment Agreement, Mr. Bridgwater is (i) prohibited from working for a competitor within a defined territory for two years after leaving the employment of the Company, (ii) prohibited from soliciting any employees or customers from the Company, and (iii) charged with responsibility to maintain the confidentiality of Company information.

Report of the Human Resources Programs Committee

The Human Resources Programs Committee has reviewed and discussed the foregoing Compensation Discussion and Analysis with the management of the Company. Based on this review and discussion, we recommend to the Board of Directors that the Compensation Discussion and Analysis be included in the Company's Proxy Statement for the Meeting.

The Human Resources Programs Committee certifies that it has reviewed with senior risk officers the senior executive officer incentive compensation arrangements and has made reasonable efforts to ensure that such arrangements do not encourage senior executive officers to take unnecessary and excessive risks that threaten the value of the Company.

Submitted by the Human Resources Programs Committee of the Company's Board of Directors.

Human Resources Programs Committee:
George Beatty, Jr., Chairman
Edward R. Bardgett
Anat Bird
Raimundo Riojas Encinas

Summary Compensation Table

The following table sets forth the compensation of (i) the Chief Executive Officer of the Company, (ii) the Chief Financial Officer of the Company, and (iii) the other three most highly compensated executive officers of the Company or the Bank who were serving as executive officers at the end of 2008 (collectively, the "Named Executives") for the year ended December 31, 2008.

Name and Principal Position	Year	Salary ($)	Bonus ($)	Stock Awards ($)(1)	Option Awards ($)(2)	Non-Equity Incentive Plan Compensation ($)(3)	All Other Compensation ($)(9)	Total ($)
J. Downey Bridgwater	2008	$581,250	—	$807,384(4)	$19,374	—	$ 38,916	$1,446,925
Chairman, President	2007	$512,500	—	$ 38,040	$ 765	$472,500	$204,689	$1,228,494
and Chief Executive Officer	2006	$462,500	—	$720,169	$ 2,036	$118,750	$ 33,410	$1,336,865
Zach L. Wasson	2008	$337,489	—	$ 59,273	$ 8,745	$ 43,750	$ 59,180(5)	$ 508,437
Executive Vice President	2007	$300,000	$ 25,000(6)	$119,343	$ 1,180	$225,000	$216,389	$ 886,912
and Chief Financial Officer	2006	$ 22,035	$ 50,000	—	—	—	$ 1,115	$ 73,150(7)
Sonny B. Lyles	2008	$318,750	—	$ 79,351	$ 8,745	—	$ 35,155	$ 442,002
Executive Vice President	2007	$300,000	—	$ 47,137	$ 1,180	$225,000	$ 34,703	$ 608,020
and Chief Risk Officer	2006	$246,250	$ 76,213	$ 44,225	—	$ 25,000	$ 44,938	$ 436,626
James W. Goolsby, Jr	2008	$271,249	—	$ 74,326	$ 8,007	$ 30,937	$ 37,111	$ 421,630
Executive Vice President	2007	$251,666	$ 35,000(8)	$ 46,482	$ 656	$169,875	$ 42,510	$ 546,189
and General Counsel	2006	$223,166	$ 37,918	$ 47,961	—	—	$ 59,282	$ 368,327
John A. Rossitto	2008	$248,750	$ 7,500	$ 48,018	$ 8,745	$ 50,000	$ 39,102	$ 402,116
Executive Vice President	2007	$235,000	—	$ 22,428	$ 1,180	$ 50,000	$ 35,016	$ 343,624
of Retail Banking	2006	$212,307	$112,710	$ 89,961	—	—	$ 76,448	$ 491,426

(1) The amounts in this column reflect the dollar amount recognized for financial statement reporting purposes for the fiscal years ended December 31, 2006, 2007, and 2008, in accordance with FAS 123(R) of awards pursuant to the 2003 Plan, and thus, may include amounts from awards granted in and prior to 2006. Assumptions used in the calculation of these amounts are included in footnote 14 of the Company's audited financial statements for the fiscal years ended December 31, 2006, 2007, and 2008, included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on or around February 28, 2007, February 29, 2008, and March , 2009, respectively.

(2) The amounts in this column reflect the dollar amount recognized for financial statement reporting purposes for the fiscal years ended December 31, 2006, 2007, and 2008 in accordance with FAS 123(R) of awards pursuant to the 2003 Plan and thus include amounts from awards granted in and prior to 2008. Assumptions used in the calculation of this amount for fiscal years ended December 31, 2004, 2005, 2006, 2007 and 2008 are included in footnote 14 to the Company's audited financial statements for the fiscal years ended December 31, 2006, and 2007 included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 28, 2007, and February 29, 2008, respectively. Assumptions used in the calculation of this amount for the fiscal year ended December 31, 2003 are included in footnote 13 to the Company's audited financial statements for the fiscal year ended December 31, 2005, included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 2, 2006.

(3) The amounts in this column reflect the cash awards to the Named Executives under the short-term incentive program, which is discussed in further detail on pages 25-28 under the heading "Annual Incentive Compensation".

(4) This amount includes the 2008 accrual in the amount of $701,875 of the expense associated with that portion of the 187,500 phantom stock units awarded Mr. Bridgwater under the terms of his 2007

Employment Agreement, which will vest in common stock at the end of 2009. The FAS 123R requires that this annual accrual be made based upon the stock value at the time of the award.

(5) Mr. Wasson received a payment of $30,000 to reimburse him for the costs associated with his social club membership. This reimbursement of the club membership application fee was part of Mr. Wasson's original employment offer.

(6) Mr. Wasson received a bonus to offset housing cost differences between Houston, Texas, and Jackson, Mississippi.

(7) Mr. Wasson's employment began in December 2006.

(8) Mr. Goolsby received a bonus for the successful resolution of all residual claims associated with the sale of the Company's mortgage subsidiary in 2003.

(9) This column indicates amounts for various benefits and perquisites provided to the Named Executives as shown in the following supplemental table:

All Other Compensation—Supplemental Table

Name	Year	Car Allowance/ Company Auto	Club Member-ship	401(k) Match	Profit Sharing/ Profit Sharing Forfeitures	Relocation Expenses	Temp-orary Housing	Tax Gross-ups	Dividend Check	Education Bonus	Total Other Compensation
J. Downey Bridgwater	2008	$ 671	$17,490	$6,900	$13,855						$ 38,916
	2007	$ 1,114	$14,886	$6,750	$13,553			$168,386(1)			$204,689
	2006	$ 1,114	$14,411	$6,750	$11,135						$ 33,410
Zach L. Wasson (2)	2008	$ 5,470	$32,955	$6,900	$13,855						$ 59,180
	2007	$ 8,211		$6,750	$13,553	$85,283	$2,548	$100,044(3)			$216,389
	2006				$ 1,115						$ 1,115
Sonny B. Lyles	2008	$14,400		$6,900	$13,855						$ 35,155
	2007	$14,400		$6,750	$13,553						$ 34,703
	2006	$14,400		$6,497	$11,135			$ 11,693	$1,213		$ 44,938
James W. Goolsby, Jr.	2008	$ 9,604	$ 6,752	$6,900	$13,855						$ 37,111
	2007	$14,400	$ 7,807	$6,750	$13,553						$ 42,510
	2006	$14,400	$ 7,734	$4,588	$10,730			$ 16,690	$1,540	$3,600	$ 59,282
John A. Rossitto (4)	2008	$14,400	$ 3,947	$6,900	$13,855						$ 39,102
	2007	$14,400	$ 3,120	$6,750	$10,745						$ 35,016
	2006	$13,550	$ 758	$6,369	$10,746			$ 45,025			$ 76,448

(1) In 2007, the Company paid Mr. Bridgwater a one-time tax equalization bonus of $168,386 to cover any federal and state tax liability associated with the exercise of 88,241 options to purchase shares of the Company's common stock.

(2) Mr. Wasson joined the Company on December 4, 2006.

(3) In 2007, the Company paid Mr. Wasson a one-time tax equalization bonus of $100,044 to cover any federal and state tax liability associated with his relocation expenses and new hire stock grant.

(4) Mr. Rossitto joined the Company on January 26, 2006.

Grants of Plan-Based Awards

Effective September 1, 2007, the Company adopted the 2007 Long-Term Incentive (LTI) Stock Performance Program (the "Program") for officers of the Company, which is administered by the HRPC. All awards for the Program are made under the shareholder-approved 2003 Stock Incentive and Compensation Plan ("the 2003 Plan"). An aggregate of 5,225,000 shares were originally issuable under the 2003 Plan. Stock options previously issued pursuant to the 2003 Plan and the 1994 Stock Incentive Plan, as amended and restated, continue to remain outstanding in accordance with their original terms. The following table sets forth information concerning each grant of an award made to a Named Executive in 2008 under the Company's equity plans. An equity award recipient must remain continuously employed by the Company through the vesting date of the award. In the case of the phantom stock units, the vesting date is the date, following the end of the third calendar year after which the phantom stock units were issued, on which comparative peer data for the completed third calendar year is available. In the event of a change in control, any unvested equity awards granted under this program shall be accelerated to vest. In the case of phantom stock units, the accelerated vesting will yield an award not to exceed 100% of the original grant. A new equity award may be granted each calendar year, and each annual grant of phantom stock units is subject to performance metrics at the end of the new three-year period.

		Estimated Possible Payouts Under Non-Equity Incentive Plan Awards			Estimated Future Payouts Under Equity Incentive Plan Awards (1)						
Name	Grant Date	Thres hold ($)	Target ($)(2)	Maximum ($)	Thres-hold (#)	Target (#)	Maximum (#)	All Other Stock Awards: Number of Shares of Stock or Units (#)	All Other Option Awards: Number of Securities Underlying Options (#)(3)	Exercise or Base Price of Option Awards ($/Sh)	Grant Date Fair Value of Stock and Option Awards ($)(4)
J. Downey Bridgwater	3/28/08	$90,000	$360,000(4)	$ 720,000	1,500	15,000	30,000				
	4/1/08								15,000	$9.94	$149,100
Zach L. Wasson	3/28/08	$43,750	$175,000	$ 306,250	600	6,000	12,000				
	4/1/08								6,000	$9.94	$ 59,640
Sonny B. Lyles	3/28/08	$40,625	$162,500	$ 284,375	600	6,000	12,000				
	4/1/08								6,000	$9.94	$ 59,640
James W. Goolsby, Jr	3/28/08	$30,938	$123,750	$ 216,563	800	8,000	16,000				
	4/1/08								8,000	$9.94	$ 79,520
John A. Rossitto	3/28/08	—	$100,000	$ unlimited	600	6,000	12,000				
	4/1/08								6,000	$9.94	$ 59,640

(1) During 2008, phantom stock units covering 41,000 shares were issued to the Named Executives under the Program.

(2) The actual 2008 annual incentive awards granted to the Named Executives are discussed in "Annual Incentive Compensation Decisions" on pages 27-28 of this Proxy Statement.

(3) During 2008, stock options covering 41,000 shares were issued to the Named Executives under the Program.

(4) The assumptions used in the calculation of the Grant Date Fair Value of Option Awards for fiscal years ended December 31, 2006, 2007 and 2008 are included in footnote 14 to the Company's audited financial statements for the fiscal year ended December 31, 2006; in footnote 13 to the Company's audited financial statements for the fiscal year ended December 31, 2007, in footnote 13 to the Company's audited financial statements for the fiscal year ended December 31, 2008, included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 28, 2007, February 28, 2008, and March , 2009, respectively.

Outstanding Equity Awards at Fiscal Year-End

The following table sets forth information concerning unexercised options; stock that has not vested; and equity incentive plan awards outstanding as of December 31, 2008 for each of the Named Executives.

	Options Awards					Stock Awards			
Name	Number of Securities Underlying Unexercised Options Exercisable (#)	Number of Securities Underlying Unexercised Options Unexercisable (#)(1)	Equity Incentive Plan Awards: Number of Securities Underlying Unexercisable Unearned Options (#)	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested ($)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($)
J. DowneyBridgwater	4,166	8,344	—	$11.64	12/20/17	—	—	27,500	$ 167,200
		15,000	—	$ 9.94	4/1/18			187,500(2)	$1,140,000
Zach L. Wasson	1,499	3,001	—	$11.41	10/1/17	5,625	$34,200	10,500	$ 63,840
		6,000	—	$ 9.94	4/1/18				
Sonny B. Lyles	1,499	3,001	—	$11.41	10/1/17	7,500	$45,600	10,500	$ 63,840
		6,000	—	$ 9.94	4/1/18				
James W. Goolsby, Jr	8,453	—	—	$ 8.86	2/22/12	6,750	$41,040	10,500	$ 63,840
	833	1,667	—	$11.41	10/1/17				
		8,000		$ 9.94	4/1/18				
John A. Rossitto	1,499	3,001	—	$11.41	10/1/17	2,250	$13,680	10,500	$ 63,840
		6,000	—	$ 9.94	4/1/18				

(1) All options listed below vest at a rate of 33 1/3% per year over the first three years of the ten-year option term.

(2) Pursuant to Mr. Bridgwater's employment agreement effective January 1, 2007, he was awarded up to 187,500 phantom stock units which vest on December 31, 2009, if certain performance criteria are achieved over the three-year period ending on that date. The performance criteria are: the Company's return on assets and earning per share growth compared to peer group.

For a detailed discussion of the material factors of the Named Executives' compensation see the "Compensation Discussion and Analysis" beginning on page 20 of this Proxy Statement.

Option Exercises and Stock Vested

The following table sets forth information concerning the exercise of stock options and the vesting of stock awards during 2008 by the Named Executives, and the fiscal year-end value of unexercised options.

	Option Awards		Stock Awards	
Name	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (#)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting ($)
J. Downey Bridgwater	—	—	—	—
Zach L. Wasson	—	—	1,875	$20,925
Sonny B. Lyles	—	—	4,125	$43,275
James W. Goolsby, Jr	12,825(1)	$116,451	4,125	$40,388
John A. Rossitto	—	—	1,125	$11,284

(1) On March 5, 2008, Mr. Goolsby exercised options on 12,825 shares (split adjusted) with an exercise price of $7.01 per share (2,250 shares) and $5.60 (10,575 shares) and a market price of $9.08 per share (split adjusted).

Nonqualified Deferred Compensation

The following table sets forth information concerning the Company's Deferred Compensation Plan which provides for the deferral of compensation on a basis that is not tax qualified.

Name	Executive Contributions in Last FY ($)	Registrant Contributions in Last FY ($)	Aggregate Earnings in Last FY ($)	Aggregate Withdrawals/ Distributions ($)	Aggregate Balance at Last FY ($)(1)
J. Downey Bridgwater	—	—	($158,477)	—	$200,472
Zach L. Wasson	—	—	—	—	—
Sonny Lyles	—	—	—	—	—
James W. Goolsby, Jr	$ 22,056	—	($54,794)	—	$ 89,163
John A. Rossitto	$114,500	—	$ 1,211	—	$115,711

(1) The amounts reported in the aggregate balance at last fiscal year end, excluding aggregate earnings, were reported as compensation to the named executive officer in the Company's Summary Compensation Table in previous years.

Potential Payments Upon Termination or Change in Control

The following table sets forth the severance amounts that each of Messrs. Bridgwater, Wasson, Lyles, Goolsby and Rossitto would have been entitled to receive if their employment relationship with the Company had been terminated on December 31, 2008 due to an involuntary termination without cause prior to a change of control or due to a change of control termination, assuming the CPP assistance to the Company had been repaid. However, due to the Company's participation in the CPP, all of the Named Executives have executed amending agreements that restrict any severance payment to the restrictions imposed by the TARP guidance. As of December 31, 2008, there were no severance payments payable upon voluntary resignation, involuntary termination for cause, death or disability, except 125,000 of Mr. Bridgwater's 187,500 phantom stock units would have vested upon his death or disability if that had occurred prior to January 1, 2009. The following table does not reflect the limitation on payments upon departure from the Company for any reason which may be imposed by the ARRA. The following table is for illustrative purposes only:

Name and Principal Position	Severance ($)	Bonus ($)	Car Allowance ($)	Employee Savings Match ($)	Placement Fees ($)	Benefits ($)	Life Insurance ($)	Vesting of Option and Other Equity Awards ($)(1)	Club Dues ($)	Estimated Bonus for Excise Taxes ($)	Total ($)
J. Downey Bridgwater Chairman, President and Chief Executive Officer(2)	$1,800,000	$591,250	$43,200	$20,700	$50,000	$51,558	$2,970	$1,307,200	$40,450	$1,448,291	$5,355,619
Zach L. Wasson Executive Vice President and Chief Financial Officer	$ 700,000	$450,000	$28,800	$13,800	$20,000	$34,226	$1,980	$ 50,895	$11,688	—	$1,311,389
Sonny B. Lyles Executive Vice President and Chief Risk Officer	$ 650,000	$450,000	$28,800	$13,800	$20,000	$25,149	$1,980	$ 62,295	—	—	$1,252,024
James W. Goolsby, Jr Executive Vice President and General Counsel	$ 550,000	$339,750	$28,800	$13,800	$20,000	$34,226	$1,723	$ 37,175	$15,960	—	$1,041,434
John A. Rossitto Executive Vice President of Retail Banking	$ 500,000	$100,000	$28,800	$13,800	$20,000	$34,226	$1,754	$ 30,375	—	—	$ 728,955

(1) The unvested options and other equity awards vest only in the event of a change of control.

(2) Mr. Bridgwater's severance amounts are payable upon a change of control if his employment is not continued by the surviving company, or if Mr. Bridgwater terminates his employment for "good reason".

Exhibit F

Via Certified Mail, Return Receipt Requested

Name
Address
Address

Greeting:

Sterling Bancshares, Inc. (the "*Company*") anticipates entering into a Securities Purchase Agreement (the "*Participation Agreement*") with the United States Department of Treasury ("*Treasury*") that provides for the Company's participation in the Treasury's TARP Capital Purchase Program (the "*CPP*"). If the Company does not participate or ceases at any time to participate in the CPP, this letter shall be of no further force and effect.

For the Company to participate in the CPP and as a condition to the closing of the investment contemplated by the Participation Agreement, the Company is required to establish specified standards for incentive compensation to its senior executive officers and to make changes to its compensation arrangements. To comply with these requirements, and in consideration of the benefits that you will receive as a result of the Company's participation in the CPP, you agree as follows:

(1) *No Golden Parachute Payments*. The Company is prohibiting any golden parachute payment to you during any "CPP Covered Period". A "*CPP Covered Period*" is any period during which (A) you are a senior executive officer and (B) Treasury holds an equity or debt position acquired from the Company in the CPP.

(2) *Recovery of Bonus and Incentive Compensation*. Any bonus and incentive compensation paid to you during a CPP Covered Period is subject to recovery or "clawback" by the Company if the payments were based on materially inaccurate financial statements or any other materially inaccurate performance metric criteria.

(3) *Compensation Program Amendments*. Each of the Company's compensation, bonus, incentive and other benefit plans, arrangements and agreements (including golden parachute, severance and employment agreements) (collectively, "*Benefit Plans*") with respect to you is hereby amended to the extent necessary to give effect to provisions (1) and (2).

(4) In addition, the Company is required to review its Benefit Plans to ensure that they do not encourage senior executive officers to take unnecessary and excessive risks that threaten the value of the Company. To the extent any such review requires revisions to any Benefit Plan with respect to you, you and the Company agree to negotiate such changes promptly and in good faith.

(5) *Definitions and Interpretation*. This letter shall be interpreted as follows:

- "Senior executive officer" means the Company's "senior executive officers" as defined in subsection 111(b)(3) of EESA.

- "Golden parachute payment" is used with same meaning as in Section 111(b)(2)(C) of EESA.

- "EESA" means the Emergency Economic Stabilization Act of 2008 as implemented by guidance or regulation issued by the Department of the Treasury and as published in the Federal Register on October 20, 2008.

- The term "Company" includes any entities treated as a single employer with the Company under 31 C.F.R. § 30.1(b) (as in effect on the Closing Date). You are also delivering a waiver pursuant to the Participation Agreement, and, as between the Company and you, the term "employer" in that waiver will be deemed to mean the Company as used in this letter.

- The term "CPP Covered Period" shall be limited by, and interpreted in a manner consistent with, 31 C.F.R. § 30.11 (as in effect on the Closing Date).

- Provisions (1) and (2) of this letter are intended to, and will be interpreted, administered and construed to, comply with Section 111 of EESA (and, to the maximum extent consistent with the preceding, to permit operation of the Benefit Plans in accordance with their terms before giving effect to this letter).

(6) Miscellaneous. To the extent not subject to federal law, this letter will be governed by and construed in accordance with the laws of Texas. This letter may be executed in two or more counterparts, each of which will be deemed to be an original. A signature transmitted by facsimile will be deemed an original signature.

The Board appreciates the concessions you are making and looks forward to your continued leadership during these financially turbulent times.

Yours sincerely,

STERLING BANCSHARES, INC.

By: ______________________________
Name: Wanda S. Dalton
Title: EVP and Chief Human Resource Officer

Intending to be legally bound, I agree with and accept the foregoing terms on the date set forth below.

____
Senior Executive Officer's Name & Signature

cc: Senior Executive Officer's Name, via hand delivery

Exhibit G

Sterling Bancshares, Inc.
Human Resources Programs Committee Report
For the Quarter ended December 31, 2008

<u>Human Resources Committee Description</u>

The Human Resources Programs Committee (the Committee) is responsible for the establishment, review, approval, and administrative oversight of all compensation and benefit policies, plans, and programs for Sterling Bank personnel in the aggregate and for the officers of Sterling in particular. The scope of this Committee includes such things as base compensation; short-term and long term incentive plans including stock options, stock grants and stock purchase plans; welfare plans; the Employee Savings Plan; and the Severance Plan. Additionally, Sterling Bank's internal Employee Savings Plan Committee and Sterling Bank's internal Severance Plan Committee report to this Board Committee.

<u>Committee Composition:</u>

George Beatty, Jr., Chairman
Anat Bird, Member
Downey Bridgwater, Liaison
Edward R. Bardgett, Member
Raimundo Riojas, Member
Wanda Dalton, Liaison

<u>Committee Activity for the Quarter ended December 31, 2008:</u>

The HR Programs Committee held its regularly scheduled meeting on December 19, 2008. The meeting began with a strategy discussion regarding Compensation Risk Analysis and TARP funds. Special guests for that discussion were [redacted] Partner in the Locke Lord law firm and the Bank's Chief Risk Officer, Sonny Lyles. Mr. [redacted] discussed with the Committee its obligation to review the various executive compensation programs established and operated by the Bank to determine whether such programs do not encourage the bank's senior executive officers to take unnecessary and excessive risk in violation of the restrictions imposed in connection with the Bank's acceptance of TARP funds. After much discussion, involving both the compensation programs provided to the Bank's senior executive officers and the compensation programs for various other groups of employees, the Committee determined that the Bank's compensation programs do not encourage its senior executive officers to take unnecessary and excessive risks. In connection with that discussion, the Committee also (i) acknowledged that the Bank's right to certain tas deductions would be limited due to its acceptance of TARP funds, and (ii) determined that personnel in the Bank, using appropriate external assistance, had caused the Bank's senior executive officers to accept certain limitations on their future compensation as necessitated by the Bank's acceptance of TARP funds.

The Committee subsequently discussed with [redacted] certain legal issues arising from (i) the adoption of Section 409A of the Internal Revenue Code, (ii) potential limits on the Bank's ability to benefit from tax deductions under Section 162(m) of the Internal Revenue Code, and (iii) the adoption of certain limits on Mr. Bridgewater's right to resign with full benefits following a change in control transaction in response to concerns raised by a shareholder activist group. Following this discussion, the Committee voted to approve four (4) special items including a revision to the Agreement the Bank has with CEO Downey Bridgwater. As a result of these items and the signing and filing of a revised agreement with Mr. Bridgwater, the Bank is now is now in compliance with all provisions of Section 409A.

The Committee then discussed and approved several items that must be reviewed on an annual basis. Afterwards, the Committee voted to approve routine voting items including minutes of its September 26, 2008 meeting. Those minutes, as well as information on all voting and reporting items were distributed in advance of the Committee meeting.

Finally, the Committee, exercising its oversight role, heard reports regarding several aspects of the Bank's human resources programs. During this part of the meeting, the Committee, again discussed, and reaffirmed its approval of the TARP Agreement & Waiver for the top five Sterling Employees which had already been approved electronically. The Committee took note of a report on employment/severance and non-compete agreements at the Bank as well as the Human Resources scorecard for November 30, 2008.

There are no items that need Board attention at this time.

George Beatty, Jr., Chairman
Edward R. Bardgett
Anat Bird
Raimundo Riojas E.

Exhibit H

FORM OF WAIVER

In consideration for the benefits I will receive as a result of my employer's participation in the United States Department of the Treasury's TARP Capital Purchase Program, I hereby voluntarily waive any claim against the United States or my employer for any changes to my compensation or benefits that are required to comply with the regulation issued by the Department of the Treasury as published in the Federal Register on October 20, 2008.

I acknowledge that this regulation may require modification of the compensation, bonus, incentive and other benefit plans, arrangements, policies and agreements (including so-called "golden parachute" agreements) that I have with my employer or in which I participate as they relate to the period the United States holds any equity or debt securities of my employer acquired through the TARP Capital Purchase Program.

This waiver includes all claims I may have under the laws of the United States or any state related to the requirements imposed by the aforementioned regulation, including without limitation a claim for any compensation or other payments I would otherwise receive, any challenge to the process by which this regulation was adopted and any tort or constitutional claim about the effect of these regulations on my employment relationship.

A signature transmitted by facsimile will be deemed an original signature.

IN WITNESS WHEREOF, I, Senior Executive Officer, intending to be legally bound hereby, and for full consideration, have executed this Waiver this ___ day of December, 2008.

____

Senior Executive Officer's Name & Signature