

STERLING FINANCIAL CORP /WA/

Form 10-Q

May 09, 2011

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended MARCH 31, 2011

OR

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

For the transition period from to .

Commission File Number. 001-34696

STERLING FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

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Washington
(State or other jurisdiction of
incorporation or organization)
111 North Wall Street, Spokane, Washington 99201
(Address of principal executive offices) (Zip Code)
(509) 458-3711
(Registrant's telephone number, including area code)

91-1572822
(I.R.S. Employer
Identification No.)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Sections 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

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

| Class | Outstanding as of April 29, 2011 |
|--------------|----------------------------------|
| Common Stock | 61,943,190 |

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March 31, 2011

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STERLING FINANCIAL CORPORATION
CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(in thousands)

| | March 31, 2011 | December 31, 2010 |
|---|---------------------|----------------------|
| ASSETS: | | |
| Cash and cash equivalents: | | |
| Interest bearing | \$ 348,596 | \$ 341,425 |
| Non-interest bearing | 73,112 | 70,158 |
| Total cash and cash equivalents | 421,708 | 411,583 |
| Restricted cash | 14,669 | 15,681 |
| Investment securities and mortgage-backed securities ("MBS"): | | |
| Available for sale | 2,808,030 | 2,825,010 |
| Held to maturity | 12,742 | 13,464 |
| Loans held for sale | 136,447 | 222,216 |
| Loans receivable, net | 5,320,884 | 5,379,081 |
| Accrued interest receivable | 35,044 | 34,087 |
| Other real estate owned, net ("OREO") | 151,774 | 161,653 |
| Properties and equipment, net | 85,542 | 81,094 |
| Bank-owned life insurance ("BOLI") | 171,093 | 169,288 |
| Core deposit intangible assets, net | 15,704 | 16,929 |
| Mortgage servicing rights, net | 22,944 | 20,604 |
| Prepaid expenses and other assets, net | 155,888 | 142,479 |
| Total assets | \$ 9,352,469 | \$ 9,493,169 |
| LIABILITIES: | | |
| Deposits: | | |
| Noninterest bearing | \$ 1,007,684 | \$ 992,368 |
| Interest bearing | 5,716,743 | 5,918,639 |
| Total deposits | 6,724,427 | 6,911,007 |
| Advances from Federal Home Loan Bank ("FHLB") | 407,142 | 407,211 |
| Securities sold subject to repurchase agreements and funds purchased | 1,051,995 | 1,032,512 |
| Junior subordinated debentures | 245,286 | 245,285 |
| Accrued interest payable | 18,019 | 17,259 |
| Accrued expenses and other liabilities | 131,140 | 109,128 |
| Total liabilities | 8,578,009 | 8,722,402 |
| SHAREHOLDERS EQUITY: | | |
| Preferred stock, 10,000,000 shares authorized; no shares outstanding | 0 | 0 |
| Common stock, 151,515,151 shares authorized; 61,937,273 and 61,926,187 shares outstanding | 1,961,763 | 1,960,871 |
| Accumulated other comprehensive (loss) | (6,795) | (4,179) |
| Accumulated deficit | (1,180,508) | (1,185,925) |
| Total shareholders equity | 774,460 | 770,767 |

| | | |
|--|--------------|--------------|
| Total liabilities and shareholders' equity | \$ 9,352,469 | \$ 9,493,169 |
|--|--------------|--------------|

See notes to consolidated financial statements.

Table of Contents**STERLING FINANCIAL CORPORATION****CONSOLIDATED STATEMENTS OF INCOME (LOSS) (UNAUDITED)****(in thousands, except per share amounts)**

| | Three Months Ended March 31, | |
|--|---------------------------------|--------------------|
| | 2011 | 2010 |
| Interest income: | | |
| Loans | \$ 80,387 | \$ 96,976 |
| MBS | 20,034 | 19,826 |
| Investments and cash equivalents | 2,816 | 2,690 |
| Total interest income | 103,237 | 119,492 |
| Interest expense: | | |
| Deposits | 17,294 | 27,451 |
| Short-term borrowings | 80 | 2,111 |
| Long-term borrowings | 12,120 | 15,040 |
| Total interest expense | 29,494 | 44,602 |
| Net interest income | 73,743 | 74,890 |
| Provision for credit losses | 10,000 | 88,556 |
| Net interest income (expense) after provision for credit losses | 63,743 | (13,666) |
| Noninterest income: | | |
| Fees and service charges | 12,561 | 13,035 |
| Mortgage banking operations | 10,327 | 11,232 |
| Loan servicing fees | 1,101 | 1,146 |
| BOLI | 1,732 | 2,295 |
| Gains on sales of securities | 6,001 | 1,911 |
| Other | (1,740) | (4,322) |
| Total noninterest income | 29,982 | 25,297 |
| Noninterest expense | 88,308 | 95,977 |
| Loss before income taxes | 5,417 | (84,346) |
| Income tax expense | 0 | 0 |
| Net income (loss) | 5,417 | (84,346) |
| Preferred stock dividend | 0 | (4,412) |
| Net income (loss) available to common shareholders | \$ 5,417 | \$ (88,758) |
| Earnings (loss) per share - basic | \$ 0.09 | \$ (112.70) |
| Earnings (loss) per share - diluted | \$ 0.09 | \$ (112.70) |

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| | | |
|---|------------|---------|
| Weighted average shares outstanding - basic | 61,930,783 | 787,576 |
| Weighted average shares outstanding - diluted | 62,335,212 | 787,576 |

See notes to consolidated financial statements.

Table of Contents**STERLING FINANCIAL CORPORATION****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED)****(in thousands)**

| | Three Months Ended March 31, | |
|---|---------------------------------|-------------|
| | 2011 | 2010 |
| Net income (loss) | \$ 5,417 | \$ (84,346) |
| Other comprehensive income (loss): | | |
| Change in unrealized gains (losses) on investments and MBS available-for-sale | (4,152) | 16,127 |
| Less deferred income tax benefit (provision) | 1,536 | (5,986) |
| Net other comprehensive (loss) income | (2,616) | 10,141 |
| Comprehensive income (loss) | \$ 2,801 | \$ (74,205) |

See notes to consolidated financial statements.

Table of Contents**STERLING FINANCIAL CORPORATION****CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**

(in thousands)

| | Three Months Ended March 31, | |
|--|------------------------------|----------------|
| | 2011 | 2010 |
| Cash flows from operating activities: | | |
| Net income (loss) | \$ 5,417 | \$ (84,346) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Provision for credit losses and OREO | 14,209 | 95,219 |
| Accretion of deferred gain on sale of buildings | (201) | (67) |
| Net gain on sales of loans, investments and MBS | (16,618) | (13,487) |
| Stock based compensation | 927 | 294 |
| Loss at foreclosure and on sale of OREO | 13,155 | 13,152 |
| Other losses | 416 | 415 |
| Increase in cash surrender value of BOLI | (1,732) | (2,295) |
| Depreciation and amortization | 10,851 | 8,744 |
| Change in: | | |
| Accrued interest receivable | (957) | 4,785 |
| Prepaid expenses and other assets | (11,956) | 9 |
| Accrued interest payable | 760 | (3,556) |
| Accrued expenses and other liabilities | 22,173 | (1,375) |
| Proceeds from sales of loans originated for sale | 469,392 | 695,258 |
| Loans originated for sale | (363,453) | (676,879) |
| Net cash provided by operating activities | 142,383 | 35,871 |
| Cash flows from investing activities: | | |
| Change in restricted cash | 1,012 | (5,827) |
| Loans funded | (315,873) | (51,248) |
| Loans purchased | (104,656) | 0 |
| Loan principal received | 365,446 | 515,780 |
| Proceeds from sales of loans | 10,483 | 6,425 |
| Purchase of investment securities | (2,000) | (1,750) |
| Proceeds from maturities of investment securities | 94 | 2,972 |
| Proceeds from sale of investment securities | 5,377 | 7,728 |
| Purchase of MBS | (233,538) | (18,047) |
| Principal payments received on MBS | 130,111 | 170,041 |
| Proceeds from sales of MBS | 113,402 | 44,579 |
| Office properties and equipment, net | (7,489) | (848) |
| Improvements and other changes to OREO | (5,404) | (1,235) |
| Proceeds from sales of OREO | 77,922 | 30,302 |
| Net cash provided by investing activities | 34,887 | 698,872 |

See notes to consolidated financial statements.

Table of Contents**STERLING FINANCIAL CORPORATION****CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED) - cont.****(in thousands)**

| | Three Months Ended March 31, | |
|--|------------------------------|------------------|
| | 2011 | 2010 |
| Cash flows from financing activities: | | |
| Net change in transaction and savings deposits | \$ (186,580) | \$ (150,051) |
| Advances from FHLB | 0 | 275,000 |
| Repayment of advances from FHLB | (48) | (345,046) |
| Net change in securities sold subject to repurchase agreements and funds purchased | 19,483 | (23,761) |
| Net cash used in financing activities | (167,145) | (243,858) |
| Net change in cash and cash equivalents | 10,125 | 490,885 |
| Cash and cash equivalents, beginning of period | 411,583 | 564,783 |
| Cash and cash equivalents, end of period | \$ 421,708 | \$ 1,055,668 |
| Supplemental disclosures: | | |
| Cash paid on interest during the period | \$ 28,734 | \$ 48,158 |
| Cash received on income taxes during the period | (56) | (1,618) |
| Noncash financing and investing activities: | | |
| Loans converted into OREO | 79,820 | 69,583 |
| Preferred stock cash dividend accrued | 0 | 3,882 |

See notes to consolidated financial statements.

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STERLING FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2011

1. Basis of Presentation:

The foregoing unaudited interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X as promulgated by the Securities and Exchange Commission. Accordingly, these financial statements do not include all of the disclosures required by accounting principles generally accepted in the United States of America for complete financial statements. These unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements as disclosed in the annual report on Form 10-K for the year ended December 31, 2010. In the opinion of management, the unaudited interim consolidated financial statements furnished herein include all adjustments, all of which are of a normal recurring nature, necessary for a fair statement of the results for the interim periods presented.

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities known to exist as of the date the financial statements are published, and the reported amounts of revenues and expenses during the reporting period. Uncertainties with respect to such estimates and assumptions are inherent in the preparation of Sterling Financial Corporation's (Sterling's) consolidated financial statements; accordingly, it is possible that the actual results could differ from these estimates and assumptions, which could have a material effect on the reported amounts of Sterling's consolidated financial position and results of operations.

In addition to other established accounting policies, the following is a discussion of recent accounting pronouncements:

In July 2010, the Financial Accounting Standards Board (the FASB) issued Accounting Standards Update (ASU) 2010-20, Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses. This update amends codification topic 310 on receivables to improve the disclosures that an entity provides about the credit quality of its financing receivables and the related allowance for credit losses. As a result of these amendments, an entity is required to disaggregate by portfolio segment or class certain existing disclosures and provide certain new disclosures about its financing receivables and related allowance for credit losses. This guidance was phased in, with the new disclosure requirements for period end balances effective as of December 31, 2010, and the new disclosure requirements for activity during the reporting period effective March 31, 2011. The troubled debt restructuring disclosures in this ASU have been delayed by ASU 2011-01, Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20, which was issued in January 2011. See Note 3.

In April 2011, the FASB issued ASU 2011-2, A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring. This update to codification topic 310 provides guidance for what constitutes a concession, as well as clarity for determining whether a debtor is experiencing financial difficulties. The amendments in this update are effective for Sterling on July 1, 2011, with retrospective application from January 1, 2011. This update is not expected to have a material effect on Sterling's consolidated financial statements.

Table of Contents**2. Investments and MBS:**

The carrying and fair values of investments and MBS are summarized as follows:

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|--------------------------|---------------------|------------------------------|-------------------------------|---------------------|
| | (in thousands) | | | |
| March 31, 2011 | | | | |
| Available for sale | | | | |
| MBS | \$ 2,588,434 | \$ 25,008 | \$ (29,140) | \$ 2,584,302 |
| Municipal bonds | 205,383 | 2,401 | (6,925) | 200,859 |
| Other | 24,848 | 0 | (1,979) | 22,869 |
| Total | \$ 2,818,665 | \$ 27,409 | \$ (38,044) | \$ 2,808,030 |
| Held to maturity | | | | |
| Tax credits | \$ 12,742 | \$ 0 | \$ 0 | \$ 12,742 |
| Total | \$ 12,742 | \$ 0 | \$ 0 | \$ 12,742 |
| December 31, 2010 | | | | |
| Available for sale | | | | |
| MBS | \$ 2,598,086 | \$ 30,017 | \$ (25,493) | \$ 2,602,610 |
| Municipal bonds | 208,588 | 949 | (8,394) | 201,143 |
| Other | 24,821 | 2 | (3,566) | 21,257 |
| Total | \$ 2,831,495 | \$ 30,968 | \$ (37,453) | \$ 2,825,010 |
| Held to maturity | | | | |
| Tax credits | \$ 13,464 | \$ 0 | \$ 0 | \$ 13,464 |
| Total | \$ 13,464 | \$ 0 | \$ 0 | \$ 13,464 |

Sterling's tax credit investments are in low income housing partnerships. Subsequent to March 31, 2011, Sterling was presented with an opportunity to sell \$10.5 million of its tax credit investments. Prior to this opportunity, there was not a liquid market to sell these types of investments. If this sale is executed, it would likely close during the second quarter of 2011 and result in a loss of approximately \$2.1 million. Other available for sale securities primarily consisted of a trust preferred security at both March 31, 2011 and December 31, 2010. During the periods ended March 31, 2011 and 2010, Sterling sold available-for-sale investments and MBS and recorded the following results:

| | Proceeds from Sales | Gross Realized Gains | Gross Realized (Losses) |
|----------------------------|------------------------|-------------------------|----------------------------|
| | (in thousands) | | |
| Three months ended: | | | |
| March 31, 2011 | \$ 118,779 | \$ 6,004 | \$ 3 |
| March 31, 2010 | 52,307 | 1,971 | 60 |

Reclassification adjustments from other comprehensive income, representing realized net gains on available-for-sale securities, net of related deferred income taxes, were as follows for the periods presented:

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| | Three Months Ended | |
|---|--------------------|----------|
| | March 31, | |
| | 2011 | 2010 |
| | (in thousands) | |
| Realized net gains reclassified from other comprehensive income | \$ 4,899 | \$ 1,223 |

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The following table summarizes Sterling's investments and MBS that had a market value below their amortized cost as of March 31, 2011 and December 31, 2010, segregated by those investments that have been in a continuous unrealized loss position for less than 12 months and those that have been in a continuous unrealized loss position for 12 months or longer:

| | Less than 12 months | | 12 months or longer | | Total | |
|--------------------------|---------------------|--------------------|---------------------|-------------------|---------------------|--------------------|
| | Market Value | Unrealized Losses | Market Value | Unrealized Losses | Market Value | Unrealized Losses |
| (in thousands) | | | | | | |
| March 31, 2011 | | | | | | |
| Municipal bonds | \$ 46,730 | \$ (1,857) | \$ 51,486 | \$ (5,068) | \$ 98,216 | \$ (6,925) |
| MBS | 1,337,676 | (29,057) | 10,205 | (83) | 1,347,881 | (29,140) |
| Other | 0 | 0 | 22,862 | (1,979) | 22,862 | (1,979) |
| Total | \$ 1,384,406 | \$ (30,914) | \$ 84,553 | \$ (7,130) | \$ 1,468,959 | \$ (38,044) |
| December 31, 2010 | | | | | | |
| Municipal bonds | \$ 89,364 | \$ (3,193) | \$ 47,101 | \$ (5,201) | \$ 136,465 | \$ (8,394) |
| MBS | 1,460,173 | (25,493) | 0 | 0 | 1,460,173 | (25,493) |
| Other | 0 | 0 | 21,250 | (3,566) | 21,250 | (3,566) |
| Total | \$ 1,549,537 | \$ (28,686) | \$ 68,351 | \$ (8,767) | \$ 1,617,888 | \$ (37,453) |

The following table presents the amortized cost and fair value of available-for-sale and held-to-maturity securities as of March 31, 2011, grouped by contractual maturity. Actual maturities for MBS will differ from contractual maturities as a result of the level of prepayments experienced on the underlying mortgages. As of March 31, 2011, the weighted average life of the MBS portfolio was 5.1 years, and its effective duration was 4.0%. This compares with a weighted average life of 5.0 years, and an effective duration of 3.6% at December 31, 2010.

| | Held-to-maturity | | Available-for-sale | |
|--|------------------|----------------------|---------------------|----------------------|
| | Amortized Cost | Estimated Fair Value | Amortized Cost | Estimated Fair Value |
| (in thousands) | | | | |
| Due within one year | \$ 0 | \$ 0 | \$ 25 | \$ 25 |
| Due after one year through five years | 0 | 0 | 457 | 457 |
| Due after five years through ten years | 0 | 0 | 231,934 | 231,297 |
| Due after ten years | 12,742 | 12,742 | 2,586,249 | 2,576,251 |
| Total | \$ 12,742 | \$ 12,742 | \$ 2,818,665 | \$ 2,808,030 |

Management evaluates investment securities for other than temporary declines in fair value on a quarterly basis. If the fair value of investment securities falls below their amortized cost and the decline is deemed to be other than temporary, the securities are written down to current market value, resulting in a loss. There were no investment securities that management identified to be other than temporarily impaired at March 31, 2011, because Sterling expects the return of all principal and interest on all securities within its investment and MBS portfolio pursuant to the contractual terms, has the ability and intent to hold these investments, has no intent to sell securities that are deemed to have a market value impairment, and believes it is unlikely that Sterling would be required to sell these investments before a recovery in market price occurs, or until maturity. As of March 31, 2011, Sterling held nonagency collateralized mortgage obligations with an amortized book value of \$35.3 million, and a net unrealized gain of \$456,000. All nonagency collateralized mortgage obligations are internally monitored monthly and independently stress-tested quarterly for both credit quality and collateral strength, and are AAA rated according to at least one major rating agency. The vintage, or year of issuance, for these nonagency securities ranges from 2003 to 2005. Additionally as of March 31, 2011, Sterling held municipal bonds with an amortized book value of \$205.4 million, and a net unrealized loss of \$4.5 million. Sterling reviews its municipal bonds for impairment at least quarterly. Approximately 90% of Sterling's municipal bonds are general obligation bonds.

Table of Contents**3. Loans Receivable and Allowance for Credit Losses:**

The following table presents the composition of Sterling's loan portfolio as of the balance sheet dates:

| | March 31, 2011 | December 31, 2010 |
|---------------------------------------|-------------------|----------------------|
| | (in thousands) | |
| Residential real estate | \$ 719,458 | \$ 758,410 |
| Multifamily real estate | 638,250 | 517,022 |
| Commercial real estate ⁽¹⁾ | 1,400,867 | 1,314,657 |
| Construction: | | |
| Residential | 106,051 | 156,853 |
| Multifamily | 72,885 | 90,518 |
| Commercial | 217,364 | 278,297 |
| Total construction | 396,300 | 525,668 |
| Consumer | 715,206 | 744,068 |
| Commercial banking ⁽²⁾ | 1,686,573 | 1,770,426 |
| Gross loans receivable | 5,556,654 | 5,630,251 |
| Deferred loan fees, net | (2,826) | (4,114) |
| Allowance for losses on loans | (232,944) | (247,056) |
| Net loans receivable | \$ 5,320,884 | \$ 5,379,081 |

⁽¹⁾ Comprised of non owner-occupied commercial real estate ("CRE").

⁽²⁾ Comprised of commercial and industrial ("C&I"), and owner-occupied CRE.

Gross loans pledged as collateral for borrowings from the FHLB and the Federal Reserve totaled \$1.34 billion and \$1.52 billion as of March 31, 2011 and December 31, 2010, respectively. As of March 31, 2011 and December 31, 2010, the unamortized portion of discounts on acquired loans was \$5.1 million and \$5.3 million, respectively.

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The following table sets forth details by segment for Sterling's loan portfolio and related allowance as of the balance sheet dates:

| | Residential | Real Estate Multifamily | Commercial | Construction | Consumer | Commercial Banking | Unallocated | Total |
|---------------------------------------|----------------|----------------------------|--------------|--------------|------------|-----------------------|-------------|--------------|
| | (in thousands) | | | | | | | |
| March 31, 2011 | | | | | | | | |
| Loans receivable, gross: | | | | | | | | |
| Individually evaluated for impairment | \$ 62,734 | \$ 21,034 | \$ 64,423 | \$ 237,955 | \$ 6,532 | \$ 84,389 | \$ 0 | \$ 477,067 |
| Collectively evaluated for impairment | 656,724 | 617,216 | 1,336,444 | 158,345 | 708,674 | 1,602,184 | 0 | 5,079,587 |
| Total loans receivable, gross | 719,458 | 638,250 | 1,400,867 | 396,300 | 715,206 | 1,686,573 | 0 | 5,556,654 |
| Deferred loan fees | 0 | 0 | 0 | 0 | 0 | 0 | (2,826) | (2,826) |
| Allowance for loan losses: | | | | | | | | |
| Individually evaluated for impairment | (532) | (133) | (4,295) | (12,732) | (51) | (3,741) | 0 | (21,484) |
| Collectively evaluated for impairment | (17,980) | (9,421) | (44,269) | (42,177) | (13,005) | (53,643) | (30,965) | (211,460) |
| Total allowance for loan losses | (18,512) | (9,554) | (48,564) | (54,909) | (13,056) | (57,384) | (30,965) | (232,944) |
| Net loans receivable | \$ 700,946 | \$ 628,696 | \$ 1,352,303 | \$ 341,391 | \$ 702,150 | \$ 1,629,189 | \$ (33,791) | \$ 5,320,884 |
| December 31, 2010 | | | | | | | | |
| Loans receivable, gross: | | | | | | | | |
| Individually evaluated for impairment | \$ 91,411 | \$ 23,541 | \$ 106,085 | \$ 335,656 | \$ 7,973 | \$ 89,973 | \$ 0 | \$ 654,639 |
| Collectively evaluated for impairment | 666,999 | 493,481 | 1,208,572 | 190,012 | 736,095 | 1,680,453 | 0 | 4,975,612 |
| Total loans receivable, gross | 758,410 | 517,022 | 1,314,657 | 525,668 | 744,068 | 1,770,426 | 0 | 5,630,251 |
| Deferred loan fees | 0 | 0 | 0 | 0 | 0 | 0 | (4,114) | (4,114) |
| Allowance for loan losses: | | | | | | | | |
| Individually evaluated for impairment | (1,239) | (362) | (4,670) | (12,368) | (33) | (2,564) | 0 | (21,236) |
| Collectively evaluated for impairment | (16,068) | (9,306) | (44,692) | (53,509) | (14,612) | (54,387) | (33,246) | (225,820) |
| Total allowance for loan losses | (17,307) | (9,668) | (49,362) | (65,877) | (14,645) | (56,951) | (33,246) | (247,056) |
| Net loans receivable | \$ 741,103 | \$ 507,354 | \$ 1,265,295 | \$ 459,791 | \$ 729,423 | \$ 1,713,475 | \$ (37,360) | \$ 5,379,081 |

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The following table presents a roll-forward by segment of the allowance for credit losses for the three months ended March 31, 2011 and 2010:

| | Residential | Real Estate Multifamily | Commercial | Construction | Consumer | Commercial Banking | Unallocated | Total |
|-------------------------------------|----------------|----------------------------|------------|--------------|-----------|-----------------------|-------------|------------|
| | (in thousands) | | | | | | | |
| 2011 | | | | | | | | |
| Allowance for loan losses: | | | | | | | | |
| Beginning balance, January 1 | \$ 17,307 | \$ 9,668 | \$ 49,362 | \$ 65,877 | \$ 14,645 | \$ 56,951 | \$ 33,246 | \$ 247,056 |
| Chargeoffs | (6,816) | (211) | (1,648) | (9,339) | (2,146) | (9,584) | 0 | (29,744) |
| Recoveries | 250 | 1 | 578 | 3,687 | 621 | 495 | 0 | 5,632 |
| Provisions | 7,771 | 96 | 272 | (5,316) | (64) | 9,522 | (2,281) | 10,000 |
| Ending balance, March 31 | 18,512 | 9,554 | 48,564 | 54,909 | 13,056 | 57,384 | 30,965 | 232,944 |
| Allowance for unfunded commitments: | | | | | | | | |
| Beginning balance, January 1 | 3,103 | 0 | 31 | 4,126 | 1,113 | 1,306 | 1,028 | 10,707 |
| Chargeoffs | (66) | 0 | 0 | 0 | 0 | 0 | 0 | (66) |
| Recoveries | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Provisions | 248 | 0 | (31) | (736) | (12) | 80 | 451 | 0 |
| Ending balance, March 31 | 3,285 | 0 | 0 | 3,390 | 1,101 | 1,386 | 1,479 | 10,641 |
| Total credit allowance | \$ 21,797 | \$ 9,554 | \$ 48,564 | \$ 58,299 | \$ 14,157 | \$ 58,770 | \$ 32,444 | \$ 243,585 |
| 2010 | | | | | | | | |
| Allowance for loan losses: | | | | | | | | |
| Beginning balance, January 1 | \$ 28,319 | \$ 8,984 | \$ 42,296 | \$ 185,222 | \$ 19,198 | \$ 59,135 | \$ 289 | \$ 343,443 |
| Chargeoffs | (4,721) | (10,380) | (7,489) | (104,508) | (3,721) | (13,040) | 0 | (143,859) |
| Recoveries | 120 | 0 | 16 | 6,291 | 503 | 394 | 0 | 7,324 |
| Provisions | 1,421 | 10,465 | 13,176 | 38,747 | 1,635 | 20,399 | 2,047 | 87,890 |
| Ending balance, March 31 | 25,139 | 9,069 | 47,999 | 125,752 | 17,615 | 66,888 | 2,336 | 294,798 |
| Allowance for unfunded commitments: | | | | | | | | |
| Beginning balance, January 1 | 712 | 0 | 0 | 9,228 | 1,481 | 1,665 | (1,119) | 11,967 |
| Chargeoffs | (310) | 0 | 0 | 0 | 0 | 0 | 0 | (310) |
| Recoveries | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Provisions | 678 | 0 | 189 | (2,082) | (208) | 151 | 1,938 | 666 |
| Ending balance, March 31 | 1,080 | 0 | 189 | 7,146 | 1,273 | 1,816 | 819 | 12,323 |
| Total credit allowance | \$ 26,219 | \$ 9,069 | \$ 48,188 | \$ 132,898 | \$ 18,888 | \$ 68,704 | \$ 3,155 | \$ 307,121 |

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In establishing its allowance for loan losses, Sterling groups its loan portfolio into standard industry categories for homogeneous loans. The groups are further segregated based on internal risk rating groups. Both qualitative and quantitative data is considered in determining the probability of default and loss given default for each group of loans. The probability of default and loss given default are used to calculate an expected loss rate which is multiplied by the loan balance in each category to determine the general allowance for loan losses. If a loan is determined to be impaired, Sterling performs an individual evaluation of the loan. The individual evaluation compares the present value of the expected future cash flows or the fair value of the underlying collateral to the recorded investment in the loan. The results of the individual impairment evaluation could determine the need to record a confirmed loss or a specific reserve.

Sterling assigns risk rating classifications to its loans. These risk ratings are divided into the following groups:

Pass asset is considered of sufficient quality to preclude a Special Mention or an adverse rating. Pass assets generally are well protected by the current net worth and paying capacity of the obligor or by the value of the asset or underlying collateral.

Special Mention asset has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in Sterling's credit position at some future date. Special Mention assets are not adversely classified and do not expose an institution to sufficient risk to warrant adverse classification.

Substandard asset is inadequately protected by the current net worth and paying capacity of the obligor or by the collateral pledged, if any. Assets so classified have well-defined weaknesses. They are characterized by the distinct possibility that Sterling will sustain some loss if the deficiencies are not corrected.

Doubtful asset has the weaknesses of those classified Substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

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Credit quality indicators for Sterling's loan portfolio as of March 31, 2011 and December 31, 2010 grouped according to internally assigned risk ratings and payment activity:

| | Residential | Real Estate Multifamily | Commercial | Construction (in thousands) | Consumer | Commercial Banking | Total | % of total |
|--------------------------|-------------------|----------------------------|---------------------|--------------------------------|-------------------|-----------------------|---------------------|---------------|
| March 31, 2011 | | | | | | | | |
| Pass | \$ 616,140 | \$ 573,313 | \$ 1,179,218 | \$ 59,367 | \$ 693,310 | \$ 1,411,070 | \$ 4,532,418 | 81% |
| Special mention | 44,384 | 29,272 | 116,861 | 91,094 | 12,687 | 84,244 | 378,542 | 7% |
| Substandard | 58,934 | 35,665 | 104,788 | 245,839 | 9,209 | 190,179 | 644,614 | 12% |
| Doubtful | 0 | 0 | 0 | 0 | 0 | 1,080 | 1,080 | 0% |
| Total | \$ 719,458 | \$ 638,250 | \$ 1,400,867 | \$ 396,300 | \$ 715,206 | \$ 1,686,573 | \$ 5,556,654 | 100% |
| Restructured | \$ 19,302 | \$ 0 | \$ 11,439 | \$ 50,725 | \$ 118 | \$ 15,095 | \$ 96,679 | |
| Nonaccrual | 43,431 | 21,034 | 52,985 | 187,231 | 6,413 | 69,294 | 380,388 | |
| Nonperforming | 62,733 | 21,034 | 64,424 | 237,956 | 6,531 | 84,389 | 477,067 | |
| Performing | 656,725 | 617,216 | 1,336,443 | 158,344 | 708,675 | 1,602,184 | 5,079,587 | |
| Total | \$ 719,458 | \$ 638,250 | \$ 1,400,867 | \$ 396,300 | \$ 715,206 | \$ 1,686,573 | \$ 5,556,654 | |
| December 31, 2010 | | | | | | | | |
| Pass | \$ 638,273 | \$ 446,363 | \$ 1,047,239 | \$ 68,099 | \$ 718,831 | \$ 1,474,312 | \$ 4,393,117 | 78% |
| Special mention | 15,670 | 29,566 | 91,870 | 89,524 | 7,074 | 89,680 | 323,384 | 6% |
| Substandard | 104,467 | 41,093 | 175,548 | 368,045 | 18,163 | 205,354 | 912,670 | 16% |
| Doubtful | 0 | 0 | 0 | 0 | 0 | 1,080 | 1,080 | 0% |
| Total | \$ 758,410 | \$ 517,022 | \$ 1,314,657 | \$ 525,668 | \$ 744,068 | \$ 1,770,426 | \$ 5,630,251 | 100% |
| Restructured | \$ 20,569 | \$ 0 | \$ 10,856 | \$ 57,662 | \$ 119 | \$ 19,298 | \$ 108,504 | |
| Nonaccrual | 70,842 | 23,541 | 95,229 | 277,992 | 7,854 | 70,675 | 546,133 | |
| Nonperforming | 91,411 | 23,541 | 106,085 | 335,654 | 7,973 | 89,973 | 654,637 | |
| Performing | 666,999 | 493,481 | 1,208,572 | 190,014 | 736,095 | 1,680,453 | 4,975,614 | |
| Total | \$ 758,410 | \$ 517,022 | \$ 1,314,657 | \$ 525,668 | \$ 744,068 | \$ 1,770,426 | \$ 5,630,251 | |

Upgrades in loan risk ratings from substandard to special mention and pass during the first quarter of 2011 were primarily related to loans that have performed in accordance with their original terms, but were previously classified due to a decline in the value of their underlying collateral.

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Aging by class for Sterling's loan portfolio as of March 31, 2011 and December 31, 2010 was as follows:

| | Residential | Real Estate | | Construction | Consumer | Commercial | Total | % of |
|--------------------------|-------------------|-------------------|---------------------|-------------------|-------------------|---------------------|---------------------|-------------|
| | | Multifamily | Commercial | (in thousands) | | Banking | | total |
| March 31, 2011 | | | | | | | | |
| 30 - 59 days past due | \$ 9,979 | \$ 1,744 | \$ 6,328 | \$ 21,588 | \$ 4,067 | \$ 23,280 | \$ 66,986 | 1% |
| 60 - 89 days past due | 3,107 | 3,167 | 2,947 | 14,590 | 1,350 | 5,208 | 30,369 | 1% |
| > 90 days past due | 30,273 | 6,178 | 33,825 | 203,220 | 4,902 | 43,299 | 321,697 | 6% |
| Total past due | 43,359 | 11,089 | 43,100 | 239,398 | 10,319 | 71,787 | 419,052 | 8% |
| Current | 676,099 | 627,161 | 1,357,767 | 156,902 | 704,887 | 1,614,786 | 5,137,602 | 92% |
| Total Loans | \$ 719,458 | \$ 638,250 | \$ 1,400,867 | \$ 396,300 | \$ 715,206 | \$ 1,686,573 | \$ 5,556,654 | 100% |
| > 90 days and accruing | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | |
| December 31, 2010 | | | | | | | | |
| 30 - 59 days past due | \$ 10,273 | \$ 3,235 | \$ 4,251 | \$ 27,251 | \$ 5,650 | \$ 12,994 | \$ 63,654 | 1% |
| 60 - 89 days past due | 4,179 | 6,146 | 7,089 | 15,419 | 1,837 | 4,099 | 38,769 | 1% |
| > 90 days past due | 35,544 | 6,428 | 34,517 | 232,140 | 4,834 | 52,497 | 365,960 | 6% |
| Total past due | 49,996 | 15,809 | 45,857 | 274,810 | 12,321 | 69,590 | 468,383 | 8% |
| Current | 708,414 | 501,213 | 1,268,800 | 250,858 | 731,747 | 1,700,836 | 5,161,868 | 92% |
| Total Loans | \$ 758,410 | \$ 517,022 | \$ 1,314,657 | \$ 525,668 | \$ 744,068 | \$ 1,770,426 | \$ 5,630,251 | 100% |
| > 90 days and accruing | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | |

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Sterling considers its nonperforming loans to be impaired loans. Impaired loans by class were as follows at March 31, 2011 and December 31, 2010:

| | Unpaid principal balance | Charge-offs | Book balance | | Specific reserve | Average book balance | Interest income recognized |
|--------------------------|--------------------------|-------------|--------------------------|-----------------------|------------------|----------------------|----------------------------|
| | | | without specific reserve | with specific reserve | | | |
| (in thousands) | | | | | | | |
| March 31, 2011 | | | | | | | |
| Residential real estate | \$ 81,524 | \$ 18,790 | \$ 26,176 | \$ 36,558 | \$ 532 | \$ 77,072 | \$ 0 |
| Multifamily real estate | 25,656 | 4,622 | 10,311 | 10,723 | 133 | 22,288 | 528 |
| Commercial real estate | 78,310 | 13,887 | 21,385 | 43,038 | 4,295 | 85,254 | 320 |
| Construction | 389,141 | 151,185 | 44,623 | 193,333 | 12,731 | 286,806 | 30 |
| Consumer | 10,244 | 3,713 | 3,968 | 2,563 | 51 | 7,252 | 0 |
| Commercial banking | 136,932 | 52,543 | 42,845 | 41,544 | 3,741 | 87,181 | 722 |
| Total | \$ 721,807 | \$ 244,740 | \$ 149,308 | \$ 327,759 | \$ 21,483 | \$ 565,853 | \$ 1,600 |
| December 31, 2010 | | | | | | | |
| Residential real estate | \$ 114,401 | \$ 22,990 | \$ 11,539 | \$ 79,872 | \$ 1,239 | | |
| Multifamily real estate | 30,464 | 6,923 | 3,201 | 20,340 | 362 | | |
| Commercial real estate | 135,366 | 29,281 | 13,993 | 92,092 | 4,670 | | |
| Construction | 539,330 | 203,674 | 39,015 | 296,641 | 12,369 | | |
| Consumer | 12,740 | 4,767 | 1,232 | 6,741 | 33 | | |
| Commercial banking | 142,111 | 52,138 | 14,839 | 75,134 | 2,564 | | |
| Total | \$ 974,412 | \$ 319,773 | \$ 83,819 | \$ 570,820 | \$ 21,237 | | |

At the applicable foreclosure date, OREO is recorded at the fair value of the real estate, less the costs to sell. The carrying value of OREO is periodically evaluated and, if necessary, an allowance is established to reduce the carrying value to net realizable value. Changes in this allowance are as follows for the periods presented:

| | Three Months Ended March 31, | |
|--------------------|------------------------------|-----------|
| | 2011 | 2010 |
| (in thousands) | | |
| Balance, January 1 | \$ 21,799 | \$ 8,204 |
| Provision | 4,209 | 6,663 |
| Charge-offs | (11,341) | (2,831) |
| Balance, March 31 | \$ 14,667 | \$ 12,036 |

The increase in charge-offs during the first quarter of 2011 was due to the increase in OREO sales, as OREO sales were \$78.0 million for the first quarter of 2011 compared to \$30.3 million during the same period in 2010.

Table of Contents**4. Junior Subordinated Debentures:**

Sterling has raised capital through the formation of trust subsidiaries. The trusts are business trusts in which Sterling owns all of the common equity. The proceeds from the sale of the securities were used to purchase junior subordinated debentures issued by Sterling. Sterling's obligations under the junior subordinated debentures and related documents, taken together, constitute a full and unconditional guarantee by Sterling of the trusts' obligations. The junior subordinated debentures are treated as debt of Sterling. The junior subordinated debentures generally mature 30 years after issuance and are redeemable at the option of Sterling under certain conditions, including, with respect to certain of the trusts, payment of call premiums. During the third quarter of 2009, Sterling elected to defer regularly scheduled interest payments on these securities, and has continued to defer these payments through March 31, 2011. As of March 31, 2011 and December 31, 2010, the accrued deferred interest was \$10.9 million and \$9.4 million, respectively. Sterling is allowed to defer payments of interest on the junior subordinated debentures for up to 20 consecutive quarterly periods without triggering an event of default. Details of the junior subordinated debentures are as follows:

| Subsidiary Issuer | Issue Date | Maturity Date | Next Call Date | Rate at March 31, 2011 (in thousands) | Amount |
|------------------------------------|------------|---------------|----------------|--|------------|
| Sterling Capital Trust IX | July 2007 | Oct 2037 | Oct 2012 | Floating 1.70% | \$ 46,392 |
| Sterling Capital Trust VIII | Sept 2006 | Sept 2036 | Dec 2011 | Floating 1.94% | 51,547 |
| Sterling Capital Trust VII | June 2006 | June 2036 | June 2011 | Floating 1.83% | 56,702 |
| Lynnwood Capital Trust II | June 2005 | June 2035 | June 2011 | Floating 2.11% | 10,310 |
| Sterling Capital Trust VI | June 2003 | Sept 2033 | June 2011 | Floating 3.51% | 10,310 |
| Sterling Capital Statutory Trust V | May 2003 | May 2033 | May 2011 | Floating 3.56% | 20,619 |
| Sterling Capital Trust IV | May 2003 | May 2033 | May 2011 | Floating 3.46% | 10,310 |
| Sterling Capital Trust III | April 2003 | April 2033 | April 2011 | Floating 3.55% | 14,433 |
| Lynnwood Capital Trust I | Mar 2003 | Mar 2033 | June 2011 | Floating 3.46% | 9,451 |
| Klamath First Capital Trust I | July 2001 | July 2031 | July 2011 | Floating 4.20% | 15,212 |
| | | | | 2.44%* | \$ 245,286 |

* Weighted average rate

Table of Contents**5. Earnings (Loss) Per Share:**

The following table presents the basic and diluted earnings per common share computations:

| | Three Months Ended March 31, | |
|--|------------------------------|-------------|
| | 2011 | 2010 |
| (in thousands, except shares and per share amounts) | | |
| Numerator: | | |
| Net income (loss) available to common shareholders | \$ 5,417 | \$ (88,758) |
| Denominator: | | |
| Weighted average shares outstanding - basic | 61,930,783 | 787,576 |
| Dilutive securities outstanding | 404,429 | 0 |
| Weighted average shares outstanding - diluted | 62,335,212 | 787,576 |
| Earnings (loss) per share - basic | \$ 0.09 | \$ (112.70) |
| Earnings (loss) per share - diluted | \$ 0.09 | \$ (112.70) |
| Antidilutive securities outstanding (weighted average): | | |
| Stock options | 17,701 | 23,140 |
| Warrants | 0 | 97,541 |
| Restricted shares | 31,847 | 2,805 |
| Total antidilutive securities outstanding | 49,548 | 123,486 |

Prior period share and per share amounts disclosed in this footnote, as well as all other prior period share and per share amounts disclosed in these financial statements, have been restated to reflect the 1-for-66 reverse stock split that was effected in November 2010.

6. Noninterest Expense:

The following table details the components of Sterling's noninterest expense:

| | Three Months Ended March 31, | | |
|--|------------------------------|-----------|----------|
| | 2011 | 2010 | % change |
| (in thousands) | | | |
| Employee compensation and benefits | \$ 43,850 | \$ 40,059 | 9% |
| OREO operations | 11,400 | 10,923 | 4% |
| Occupancy and equipment | 9,822 | 9,946 | -1% |
| Data processing | 6,080 | 5,105 | 19% |
| Insurance | 4,504 | 12,685 | -64% |
| Professional fees | 3,058 | 6,380 | -52% |
| Depreciation | 3,012 | 3,568 | -16% |
| Advertising | 1,960 | 2,583 | -24% |
| Travel and entertainment | 1,236 | 716 | 73% |
| Amortization of core deposit intangibles | 1,225 | 1,225 | 0% |
| Other | 2,161 | 2,787 | -22% |
| Total noninterest expense | \$ 88,308 | \$ 95,977 | -8% |

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The decrease in noninterest expense was primarily due to a lower level of FDIC deposit insurance premiums and professional fees. Insurance, which is primarily comprised of FDIC deposit insurance premiums, was down over the 2010 amount due to the higher assessment rates last year applicable to Sterling Savings Bank prior to its returning to a well-capitalized status. Professional fees decreased over the same period a year earlier, because the 2010 period included advisory costs related to Sterling's recapitalization.

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7. Income Taxes:

Sterling uses an estimate of future earnings and an evaluation of its loss carryback ability and tax planning strategies to determine whether it is more likely than not that it will realize the benefit of its net deferred tax asset. Sterling has determined that it does not at this time meet the required threshold, and accordingly, has a valuation allowance against its deferred tax asset. As of March 31, 2011, the reserved deferred tax asset was approximately \$358 million, including approximately \$271 million of net operating loss carry-forwards. This is compared with a reserved deferred tax asset of approximately \$359 million, including approximately \$263 million of net operating loss carry-forwards, as of December 31, 2010.

With regard to the deferred tax asset, the benefits of Sterling's accumulated tax losses would be reduced in the event of an ownership change, as determined under Section 382 of the Internal Revenue Code. During 2010, in order to preserve the benefits of these tax losses, Sterling's shareholders approved a protective amendment to Sterling's restated articles of incorporation and Sterling's board has adopted a shareholder rights plan, both of which restrict certain transfers of stock that would result in investors acquiring more than 4.95% of Sterling's total outstanding common stock.

8. Segment Information:

For 2011, Sterling changed its reporting segments to reflect the integration of Golf Savings Bank into Sterling Savings Bank and leadership realignments. The segments for 2011 are as follows:

Community Banking – a division within Sterling Savings Bank providing traditional banking and wealth management services through the retail banking, private banking and commercial banking groups.

Home Loan Division – originating residential real estate loans primarily through the mortgage banking operations of Sterling Savings Bank on both a servicing-retained and servicing-released basis.

Commercial Real Estate – a division within Sterling Savings Bank focused on the origination and servicing of multifamily real estate, commercial real estate, and construction loans.

The Other and Eliminations caption represents intercompany eliminations of revenue and expenses. Segment results for the comparable period presented are grouped according to the original classifications, due to the impracticability of reclassification to current period presentation.

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| | As of and for the Three Months Ended March 31, 2011 | | | | | Total |
|-----------------------------------|---|--------------------|---------------------------------------|------------------------|--------------|-------|
| | Community Banking | Home Loan Division | Commercial Real Estate (in thousands) | Other and Eliminations | | |
| Interest income | \$ 91,744 | \$ 1,295 | \$ 10,600 | \$ (402) | \$ 103,237 | |
| Interest expense | 26,434 | 503 | 2,604 | (47) | 29,494 | |
| Net interest income (expense) | 65,310 | 792 | 7,996 | (355) | 73,743 | |
| Provision for credit losses | 10,678 | (89) | (589) | 0 | 10,000 | |
| Noninterest income | 18,301 | 9,932 | 1,422 | 327 | 29,982 | |
| Noninterest expense | 73,120 | 10,282 | 4,906 | 0 | 88,308 | |
| Income (loss) before income taxes | \$ (187) | \$ 531 | \$ 5,101 | \$ (28) | \$ 5,417 | |
| Total assets | \$ 9,438,037 | \$ 144,143 | \$ 834,019 | \$ (1,063,730) | \$ 9,352,469 | |

| | As of and for the Three Months Ended March 31, 2010 | | | | | Total |
|-----------------------------------|---|----------------------------------|---|-----------------------------|------------------------|---------------|
| | Community Banking | Residential Construction Lending | Residential Mortgage Banking (in thousands) | Commercial Mortgage Banking | Other and Eliminations | |
| Interest income | \$ 108,955 | \$ 2,714 | \$ 6,134 | \$ 1,619 | \$ 70 | \$ 119,492 |
| Interest expense | 33,737 | 6,329 | 3,063 | 0 | 1,473 | 44,602 |
| Net interest income (expense) | 75,218 | (3,615) | 3,071 | 1,619 | (1,403) | 74,890 |
| Provision for credit losses | 48,933 | 36,067 | 3,556 | 0 | 0 | 88,556 |
| Noninterest income | 12,681 | 11 | 12,593 | 663 | (651) | 25,297 |
| Noninterest expense | 76,636 | 1,615 | 12,070 | 1,408 | 4,248 | 95,977 |
| Income (loss) before income taxes | \$ (37,670) | \$ (41,286) | \$ 38 | \$ 874 | \$ (6,302) | \$ (84,346) |
| Total assets | \$ 9,171,631 | \$ 812,115 | \$ 555,481 | \$ 17,085 | \$ (1,745) | \$ 10,554,567 |

Table of Contents**9. Stock-Based Compensation:**

The following table presents a summary of stock option and restricted stock activity during the three months ended March 31, 2011:

| | Stock Options | | Restricted Stock | |
|------------------------------------|---------------|--|------------------|------------------------------------|
| | Number | Weighted Average Exercise Price | Number | Weighted Average Grant Price |
| Balance, January 1, 2011 | 18,920 | \$ 1,357.97 | 368,805 | \$ 18.24 |
| Granted | 0 | 0.00 | 55,610 | 18.15 |
| Exercised/vested | 0 | 0.00 | (11,741) | 49.14 |
| Cancelled/expired | (2,221) | 1,167.12 | 0 | 0.00 |
| Outstanding, March 31, 2011 | 16,699 | \$ 1,383.36 | 412,674 | \$ 17.35 |
| Exercisable, March 31, 2011 | 14,581 | \$ 1,501.21 | | |

At March 31, 2011, the weighted average remaining contractual life and the aggregate intrinsic value of stock options outstanding was 2.9 years and \$0, respectively, and of stock options exercisable was 2.8 years and \$0, respectively, and at December 31, 2010, were 2.8 years and \$0, respectively, and 2.6 years and \$0, respectively. As of March 31, 2011, a total of 5,549,089 shares remained available for grant under Sterling's 2003, 2007 and 2010 Long-Term Incentive Plans. The stock options granted under these plans have terms of four, six, eight and ten years. Restricted shares granted during 2011 have vesting schedules that vary, ranging from vesting immediately upon grant to vesting up to three years after the grant date.

Stock-based compensation expense recognized during the periods presented was as follows:

| | Three Months Ended March 31, | |
|-----------------------------------|------------------------------|---------------|
| | 2011 | 2010 |
| | (in thousands) | |
| Stock based compensation expense: | | |
| Stock options | \$ 96 | \$ 146 |
| Restricted stock | 831 | 147 |
| Total | \$ 927 | \$ 293 |

As of March 31, 2011, unrecognized equity compensation expense totaled \$6.7 million, as the underlying outstanding awards had not yet been earned. This amount will be recognized over a weighted average period of 2.0 years. During the three months ended March 31, 2011, 83 stock options were forfeited, and no shares of restricted stock were forfeited.

10. Derivatives and Hedging:

As part of its mortgage banking activities, commitments to prospective borrowers on residential mortgage loan applications may have the interest rates fixed for a period of 10 to 60 days (interest rate lock commitments). To offset the exposure to interest rate risk, the pricing for the sale of these loans is fixed with various qualified investors under both non-binding (best-efforts) and binding (mandatory) delivery programs. For mandatory delivery programs, Sterling hedges interest rate risk by entering into offsetting forward sale agreements on MBS with third parties. Risks inherent in mandatory delivery programs include the risk that if Sterling does not close the loans subject to interest rate lock commitments, it is nevertheless obligated to deliver MBS to the counterparty under the forward sale agreement. Sterling could incur significant costs in acquiring replacement loans or MBS and such costs could have a material adverse effect on mortgage banking operations in future periods.

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Interest rate lock commitments and loan delivery commitments are off-balance sheet commitments that are considered to be derivatives. As of March 31, 2011, Sterling had \$152.9 million of interest rate lock commitments, \$80.0 million of residential mortgage loans held for sale that were not committed to investors and offsetting forward sale agreements on MBS valued at \$242.5 million. As of December 31, 2010, Sterling had \$118.6 million of interest rate lock commitments, \$207.0 million of residential mortgage loans held for sale that were not committed to investors and offsetting forward sale agreements on MBS valued at \$285.3 million. In addition, Sterling had mandatory delivery commitments to sell mortgage loans to investors valued at \$32.5 million as of March 31, 2011, compared with \$800,000 as of December 31, 2010. As of March 31, 2011 and December 31, 2010, Sterling had entered into best efforts forward commitments to sell \$14.4 million and \$18.5 million of mortgage loans, respectively.

From time to time, Sterling may enter into interest rate swap transactions with loan customers. The interest rate risk on these swap transactions is managed by entering into offsetting interest rate swap agreements with various counterparties (broker-dealers). Both customer and broker-dealer related interest rate derivatives are carried at fair value by Sterling.

11. Fair Value:

Fair value estimates are determined as of a specific date using quoted market prices, where available, or various assumptions and estimates. As the assumptions underlying these estimates change, the fair value of the financial instruments will change. The use of assumptions and various valuation techniques, as well as the absence of secondary markets for certain financial instruments, will likely reduce the comparability of fair value disclosures between financial institutions. Accordingly, the aggregate fair value amounts presented do not represent and should not be construed to represent the full underlying value of Sterling.

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The carrying amounts and fair values of financial instruments as of the periods indicated were as follows. Other assets are comprised of FHLB stock and derivatives, while other liabilities are comprised of derivatives:

| | March 31, 2011 | | December 31, 2010 | |
|---------------------------------|-----------------|------------|-------------------|------------|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| (in thousands) | | | | |
| Financial assets: | | | | |
| Cash and cash equivalents | \$ 436,377 | \$ 436,377 | \$ 427,264 | \$ 427,264 |
| Investments and MBS: | | | | |
| Available for sale | 2,808,030 | 2,808,030 | 2,825,010 | 2,825,010 |
| Held to maturity | 12,742 | 12,742 | 13,464 | 13,464 |
| Loans held for sale | 136,447 | 136,447 | 222,216 | 222,216 |
| Loans receivable, net | 5,320,884 | 5,031,617 | 5,379,081 | 5,078,157 |
| Accrued interest receivable | 35,044 | 35,044 | 34,087 | 34,087 |
| Other assets | 106,734 | 106,734 | 106,717 | 106,717 |
| Financial liabilities: | | | | |
| Non-maturity deposits | 3,480,270 | 3,211,558 | 3,376,188 | 3,123,840 |
| Deposits with stated maturities | 3,244,157 | 3,271,905 | 3,534,819 | 3,588,051 |
| Borrowings | 1,704,423 | 1,663,799 | 1,685,008 | 1,660,387 |
| Accrued interest payable | 18,019 | 18,019 | 17,259 | 17,259 |
| Other liabilities | 5,402 | 5,402 | 6,176 | 6,176 |

Companies have the option of carrying financial assets and liabilities at fair value, which can be implemented on all or individually selected financial instruments. The framework for defining and measuring fair value requires that one of three valuation methods be used to determine fair market value: the market approach, the income approach or the cost approach. To increase consistency and comparability in fair value measurements and related disclosures, the standard also creates a fair value hierarchy to prioritize the inputs to these valuation methods into the following three levels:

Level 1 inputs are a select class of observable inputs, based upon the quoted prices for identical instruments in active markets that are accessible as of the measurement date, and are to be used whenever available.

Level 2 inputs are other types of observable inputs, such as quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are inactive; or other inputs that are observable or can be derived from or supported by observable market data. Level 2 inputs are to be used whenever Level 1 inputs are not available.

Level 3 inputs are significantly unobservable, reflecting the reporting entity's own assumptions regarding what market participants would assume when pricing a financial instrument. Level 3 inputs are to be used only when Level 1 and Level 2 inputs are unavailable.

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Assets and Liabilities Measured at Fair Value on a Recurring Basis. The following table presents Sterling's financial instruments that are measured at fair value on a recurring basis:

| | Total | Level 1 (in thousands) | Level 2 | Level 3 |
|--|---------------------|---------------------------|---------------------|-----------------|
| Balance, March 31, 2011: | | | | |
| Investment securities available-for-sale: | | | | |
| MBS | \$ 2,584,302 | \$ 0 | \$ 2,584,302 | \$ 0 |
| Municipal bonds | 200,859 | 0 | 200,859 | 0 |
| Other | 22,869 | 0 | 22,869 | 0 |
| Total investment securities available-for-sale | 2,808,030 | 0 | 2,808,030 | 0 |
| Loans held for sale | 136,447 | 0 | 136,447 | 0 |
| Other assets - derivatives | 6,989 | 0 | 2,686 | 4,303 |
| Total assets | \$ 2,951,466 | \$ 0 | \$ 2,947,163 | \$ 4,303 |
| Other liabilities - derivatives | \$ 5,402 | \$ 0 | \$ 1,493 | \$ 3,909 |
| Balance, December 31, 2010: | | | | |
| Investment securities available-for-sale: | | | | |
| MBS | \$ 2,602,610 | \$ 0 | \$ 2,602,610 | \$ 0 |
| Municipal bonds | 201,143 | 0 | 201,143 | 0 |
| Other | 21,257 | 0 | 21,257 | 0 |
| Total investment securities available-for-sale | 2,825,010 | 0 | 2,825,010 | 0 |
| Loans held for sale | 222,216 | 0 | 222,216 | 0 |
| Other assets - derivatives | 6,746 | 0 | 1,869 | 4,877 |
| Total assets | \$ 3,053,972 | \$ 0 | \$ 3,049,095 | \$ 4,877 |
| Other liabilities - derivatives | \$ 6,176 | \$ 0 | \$ 1,750 | \$ 4,426 |

Level 2 derivatives represent mortgage banking interest rate lock and loan delivery commitments, as well as a common stock warrant carried as a derivative liability. Level 3 derivatives represent interest rate swaps, with market values for these instruments being equal to the present value differential between the fixed interest rate payments, as established in the swap agreement, and the floating interest rate payments, as projected by the forward interest rate curve, over the agreed to term of the swap. See Note 10 for a further discussion of these derivatives. The following table provides a reconciliation of interest rate swaps measured at fair value using significant unobservable or Level 3 inputs on a recurring basis during the three months ended March 31, 2011 and the year ended December 31, 2010. Gains and losses on these interest rate swaps are included in earnings as interest income or expense.

| | Beginning Balance | Change included in earnings (in thousands) | Ending Balance |
|--|----------------------|--|-------------------|
| Three Months Ended March 31, 2011 | | | |
| Other assets - derivatives | \$ 4,877 | \$ (574) | \$ 4,303 |
| Other liabilities - derivatives | 4,426 | (517) | 3,909 |
| Year Ended December 31, 2010 | | | |
| Other assets - derivatives | 4,547 | 330 | 4,877 |
| Other liabilities - derivatives | 4,319 | 107 | 4,426 |

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Changes in the fair value of available-for-sale securities are recorded on the balance sheet under accumulated-other-comprehensive income, while gains and losses from sales are recognized as income. The difference between the aggregate fair value and the aggregate unpaid principal balance of loans held for sale that are carried at fair value were included in earnings as follows:

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| | Three Months Ended March 31, | |
|-----------------------------|------------------------------|----------|
| | 2011 | 2010 |
| | (in thousands) | |
| Mortgage banking operations | \$ 3,348 | \$ 2,771 |

Assets and Liabilities Measured at Fair Value on a Non-recurring Basis. Sterling may be required, from time to time, to measure certain other financial assets at fair value on a non-recurring basis from application of lower of cost or market (LOCOM) accounting or write-downs of individual assets. The following table presents the carrying value for these financial assets as of the dates indicated:

| | Total Carrying Value | March 31, 2011 | | Level 3 |
|---------------------------|----------------------|----------------|---------|------------|
| | | Level 1 | Level 2 | |
| | | (in thousands) | | |
| Loans | \$ 345,840 | \$ 0 | \$ 0 | \$ 345,840 |
| OREO | 136,916 | 0 | 0 | 136,916 |
| Mortgage servicing rights | 22,944 | 0 | 0 | 22,944 |

| | Total Carrying Value | December 31, 2010 | | |
|---------------------------|----------------------|-------------------|---------|------------|
| | | Level 1 | Level 2 | Level 3 |
| Loans | \$ 539,032 | \$ 0 | \$ 0 | \$ 539,032 |
| OREO | 145,155 | 0 | 0 | 145,155 |
| Mortgage servicing rights | 20,604 | 0 | 0 | 20,604 |

The loans disclosed above represent the carrying value of impaired loans at period end. OREO represents the carrying value after write-downs taken at foreclosure that were charged to the loan loss allowance, as well as specific reserves established subsequent to foreclosure due to updated appraisals. Fair value adjustments to the mortgage servicing rights were mainly due to market derived assumptions associated with mortgage prepayment speeds. Sterling carries its mortgage servicing rights at LOCOM, and they are accordingly measured at fair value on a non-recurring basis.

The methods and assumptions used to estimate the fair value of each class of financial instruments are as follows:

Cash and Cash Equivalents

The carrying value of cash and cash equivalents approximates fair value due to the relatively short-term nature of these instruments.

Investments and MBS

The fair value of investments and MBS has been valued using a matrix pricing technique based on quoted prices for similar instruments, which Sterling validates with non-binding broker quotes, in depth collateral analysis and cash flow stress testing.

Loans Held for Sale

Sterling has elected to carry loans held for sale at fair value. The fair values are based on investor quotes in the secondary market based upon the fair value of options and commitments to sell or issue mortgage loans. The fair value election was made to match changes in the value of these loans with the value of their economic hedges. Loan origination fees, costs and servicing rights, which were previously deferred on these loans, are now recognized as part of the loan value at origination.

Loans Receivable

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The fair value of performing loans is estimated by discounting the cash flows using interest rates that consider the current credit and interest rate risk inherent in the loans and current economic and lending conditions. The fair value of nonperforming loans is estimated by discounting management's current estimate of future cash flows using a rate estimated to be commensurate with the risks involved. The fair value of nonperforming collateral dependent loans is estimated based upon the value of the underlying collateral. In addition, a liquidity discount has been applied against the portfolio to reflect the uncertainty surrounding the timing of when a sale may occur.

Mortgage Servicing Rights

The fair value of mortgage servicing rights is estimated using a discounted cash flow methodology to arrive at the present value of future expected earnings from the servicing of the loans. Model inputs include prepayment speeds, market interest rates, contractual interest rates on the loans being serviced, and the amount of other fee income generated over the servicing contract.

OREO

The fair value of OREO is estimated using third party appraisals, subject to updates to reflect comparable market transactions, with appraisals ordered for as is or disposal value.

Deposits

The fair values of deposits subject to immediate withdrawal such as interest and noninterest bearing checking, regular savings, and money market deposit accounts, are equal to the amounts payable on demand at the reporting date, net of a core deposit intangible. Fair values for time deposits are estimated by discounting future cash flows using interest rates currently offered on time deposits with similar remaining maturities.

Borrowings

The carrying amounts of short-term borrowings under repurchase agreements, federal funds purchased, short-term FHLB advances and other short-term borrowings approximate their fair values due to the relatively short period of time between the origination of the instruments and the expected payment dates on the instruments. The fair value of advances under lines of credit approximates their carrying value because such advances bear variable rates of interest. The fair value of long-term FHLB advances and other long-term borrowings is estimated using discounted cash flow analyses based on Sterling's current incremental borrowing rates for similar types of borrowing arrangements with similar remaining terms.

12. Regulatory Matters and Capital Position:

On September 27, 2010, Sterling announced the cease and desist order put in place in October 2009 with Sterling Savings Bank was terminated, reflecting a strengthened balance sheet and capital position. Although the cease and desist is no longer applicable, Sterling Savings Bank will continue to be subject to enhanced supervisory review by the FDIC and WDFI under a memorandum of understanding (MOU), pursuant to which Sterling Savings Bank must maintain Tier 1 capital in an amount that ensures that its leverage ratio is at least 8%. Sterling Savings Bank is also required to meet certain asset quality targets, develop a written capital plan, develop a three-year strategic plan and comply with other requirements. As of March 31, 2011, Sterling Savings Bank's capital position exceeded the level prescribed under the MOU.

As of the date of this filing, Sterling continues to be subject to a regulatory agreement with the Federal Reserve Bank of San Francisco (the Reserve Bank Agreement). Under the terms of the Reserve Bank Agreement, Sterling is subject to restrictions on its ability to pay dividends and distributions, incur debt, purchase or redeem its stock and appoint new board members or senior executive officers. Under the Reserve Bank Agreement, Sterling is also required to act as a source of strength to Sterling Savings Bank and to report quarterly to the Reserve Bank on steps taken to improve its capital ratios and risk, liquidity and fund management and on other matters.

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The following table sets forth the respective capital positions for Sterling and Sterling Savings Bank as of March 31, 2011:

| | Actual Amount | Ratio | Adequately Capitalized Amount | Ratio | Well- Capitalized Amount (in thousands) | Ratio |
|--|------------------|-------|-------------------------------------|-------|--|-------|
| Tier 1 leverage ratio | | | | | | |
| Sterling | \$ 1,008,883 | 10.6% | \$ 379,868 | 4.0% | \$ 474,835 | 5.0% |
| Sterling Savings Bank | 976,027 | 10.3% | 379,832 | 4.0% | 474,790 | 5.0% |
| Tier 1 risk-based capital ratio | | | | | | |
| Sterling | 1,008,883 | 16.5% | 243,938 | 4.0% | 365,907 | 6.0% |
| Sterling Savings Bank | 976,027 | 16.0% | 243,821 | 4.0% | 365,731 | 6.0% |
| Total risk-based capital ratio | | | | | | |
| Sterling | 1,087,461 | 17.8% | 487,876 | 8.0% | 609,845 | 10.0% |
| Sterling Savings Bank | 1,054,288 | 17.3% | 487,642 | 8.0% | 609,552 | 10.0% |

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PART I Financial Information (continued)

Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations

STERLING FINANCIAL CORPORATION

March 31, 2011

This report contains forward-looking statements. For a discussion about such statements, including the risks and uncertainties inherent therein, see Forward-Looking Statements. Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the Consolidated Financial Statements and Notes presented elsewhere in this report and in Sterling's 2010 annual report on Form 10-K.

General

Sterling Financial Corporation, with headquarters in Spokane, Washington, is the bank holding company for Sterling Savings Bank, which commenced operations in 1983. References to Sterling, the Company, we, our, or us in this report refer to Sterling Financial Corporation, a Washington corporation, and its consolidated subsidiaries on a combined basis, unless otherwise specified or the context otherwise requires. References to Sterling Savings Bank refer to our subsidiary Sterling Savings Bank, a Washington state-chartered commercial bank. References to our subsidiary bank or our banking subsidiary refer to Sterling Savings Bank. Sterling Savings Bank offers retail and commercial banking products and services, mortgage lending, construction financing and investment products to individuals, small businesses, commercial organizations and corporations. As of March 31, 2011, Sterling had assets of \$9.35 billion and operated 178 depository branches throughout Washington, Oregon, Idaho, Montana, and California.

Executive Summary and Highlights

Net income available to common shareholders was \$5.4 million or \$0.09 per share for the first quarter of 2011, versus a net loss attributable to common shareholders of \$88.8 million or \$112.70 per common share for the same period in 2010. Comparability in per share results over the periods presented reflects the increase in the amount of shares outstanding subsequent to Sterling's Recapitalization in August 2010.

The following are selected financial metrics from the first quarter of 2011:

Net interest margin expanded to 3.22%, improving 37 basis points from the first quarter of 2010.

Total funding costs were reduced by 38 basis points from the same period last year.

Nonperforming assets decreased \$187.4 million, or 23%, to \$628.8 million during the first quarter of 2011, and are down 41% from the same period in 2010.

The provision for credit losses declined by \$78.6 million as compared with the same period in 2010.

The loan loss allowance at March 31, 2011 was \$232.9 million, or 4.19% of total loans, compared to \$294.8 million, or 4.19% of total loans at March 31, 2010.

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Tier 1 leverage ratio increased to 10.6% at March 31, 2011, from 2.6% a year ago, and tangible common equity to tangible assets increased to 8.1% at March 31, 2011. As of March 31, 2011, Sterling's regulatory capital ratios exceed the requirements to be deemed well-capitalized.

Critical Accounting Policies

The accounting and reporting policies of Sterling conform to accounting principles generally accepted in the United States of America (GAAP) and to general practices within the banking industry. The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

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Allowance for Credit Losses. The allowance for credit losses is comprised of the allowance for loan losses and the reserve for unfunded credit commitments. In general, determining the amount of the allowance requires significant judgment and the use of estimates by management. Sterling maintains an allowance for credit losses to absorb probable losses in the loan portfolio based on a quarterly analysis of the portfolio and expected future losses. This analysis is designed to determine an appropriate level and allocation of the allowance for losses among loan types by considering factors affecting loan losses, including specific and confirmed losses, levels and trends in classified and nonperforming loans, historical loan loss experience, loan migration analysis, current national and local economic conditions, volume, growth and composition of the portfolio, regulatory guidance and other relevant factors. The reserve for unfunded credit commitments includes loss coverage for loan repurchases arising from mortgage banking activities. Management monitors the loan portfolio to evaluate the adequacy of the allowance. The allowance can increase or decrease each quarter based upon the results of management's analysis.

The portfolio is grouped into standard industry categories for homogeneous loans based on characteristics such as loan type, borrower and collateral. Annual and quarterly loan migration to loss data is used to determine the probability of default. Currently, Sterling is establishing the expected loss rate on loans using losses from the most recent 12 months to estimate the amount that would be lost if a default were to occur, which is termed the loss given default. The probability of default is multiplied by the loss given default to calculate the expected losses for each loan category.

Sterling may also maintain an unallocated allowance to provide for other credit losses that may exist in the loan portfolio that are not taken into consideration in establishing the probability of default and loss given default. The unallocated amount may generally be maintained at higher levels during times of economic uncertainty. The unallocated amount is reviewed at least quarterly based on credit and economic trends. As of March 31, 2011, the unallocated allowance was 13% of the allowance for loan losses, unchanged from December 31, 2010.

Individual loan reviews are based upon specific quantitative and qualitative criteria, including the size of the loan, loan quality ratings, value of collateral, repayment ability of borrowers and guarantors, as applicable, and historical experience factors. The historical experience factors utilized and allowances for homogeneous loans (such as residential mortgage loans and consumer loans) are collectively evaluated based upon historical loss experience, loan migration analysis, trends in losses and delinquencies, growth of loans in particular markets, and known changes in economic conditions in each particular lending market.

A loan is considered impaired when, based on current information and events, it is probable Sterling will be unable to collect the scheduled payments of principal and interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of delay, the reasons for the delay, the borrower's prior payment record, the ability and willingness of guarantors to make payments, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price or the fair value of collateral if the loan is collateral dependent.

The fair value of the underlying collateral for real estate loans, which may or may not be collateral dependent, is determined by using appraisals from qualified external sources. For commercial properties and residential development loans, the external appraisals are reviewed by qualified internal appraisal staff to ensure compliance with appropriate standards and technical accuracy. Appraisals are updated according to regulatory provisions for extensions or restructurings of commercial or residential real estate construction and permanent loans that have not performed within the terms of the original loan. Updated appraisals are also ordered for loans that have not been restructured, but that have stale valuation information, generally defined in the current market as information older than one year, and deteriorating credit quality that warrants classification as substandard.

The timing of obtaining appraisals may vary, depending on the nature and complexity of the property being evaluated and the general breadth of appraisal activity in the marketplace, but generally it is within 30 to 90 days of recognition of substandard status, following determination of collateral dependency, or in connection with a loan's maturity or a negotiation that may result in the restructuring or extension of a real estate secured loan. Delays in timing may occur to comply with actions such as a bankruptcy filing or provisions of an SBA guarantee.

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Estimates of fair value may be used for substandard collateral dependent loans at quarter end if external appraisals are not expected to be completed in time for determining quarter end results or to update values between appraisal dates to reflect recent sales activity of comparable inventory or pending property sales of the subject collateral. Sterling records a specific reserve for impaired loans for which an updated valuation analysis has not been completed within the last quarter. The specific reserve is calculated by applying an estimated fair value adjustment to each loan based on market and property type. Estimates of value are not used to raise a value; however, estimates may be used to recognize deterioration of market values in quarters between appraisal updates. The judgment with respect to recognition of any provision or related charge-off for a confirmed loss also takes into consideration whether the loan is collateral dependent or whether it is supported by sources of repayment or cash flow beyond the collateral that is being valued. For loans that are deemed to be collateral dependent, the amount of charge-offs is determined in relation to the collateral's appraised value. For loans that are not deemed to be collateral dependent, the amount of charge-offs may differ from the collateral's appraised value because there is additional support for the loan, such as cash flow from other sources.

While management uses available information to provide for loan losses, the ultimate collectability of a substantial portion of the loan portfolio and the need for future additions to the allowance will be influenced by changes in economic conditions and other relevant factors. There can be no assurance that the allowance for credit losses will be adequate to cover all losses, but management believes the allowance for credit losses was adequate at March 31, 2011.

Income Taxes. Sterling estimates income taxes payable based on the amount it expects to owe various taxing authorities. Accrued income taxes represent the net estimated amount due to, or to be received from, taxing authorities. In estimating accrued income taxes, Sterling assesses the relative merits and risks of the appropriate tax treatment of transactions, taking into account the applicable statutory, judicial and regulatory guidance in the context of Sterling's tax position. Sterling also considers recent audits and examinations, as well as its historical experience in making such estimates. Although Sterling uses available information to record income taxes, underlying estimates and assumptions can change over time as a result of unanticipated events or circumstances. Penalties and interest associated with any potential estimate variances would be included in income tax expense on the Consolidated Statement of Income.

Sterling uses an estimate of future earnings and an evaluation of its loss carryback ability and tax planning strategies to determine whether it is more likely than not that it will realize the benefit of its net deferred tax asset. Sterling has determined that it does not at this time meet the required threshold, and accordingly, has a valuation allowance against its deferred tax asset. During the three months ended March 31, 2011, Sterling did not recognize any income tax expense, as the income tax for the quarter was offset by a reduction in the deferred tax asset valuation allowance.

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The most significant component of earnings for a financial institution typically is net interest income, which is the difference between interest income, primarily from loans, MBS and investment securities, and interest expense, primarily on deposits and borrowings. Net interest spread refers to the difference between the yield on interest-earning assets and the rate paid on interest-bearing liabilities. Net interest margin refers to net interest income divided by total average interest-earning assets and is influenced by the level and relative mix of interest-earning assets and interest-bearing liabilities. The following table sets forth, on a tax equivalent basis, information with regard to Sterling's net interest income, net interest spread and net interest margin:

| | March 31, 2011 | | Three Months Ended | | March 31, 2010 | |
|---|-----------------|-------------------------|--------------------|-----------------|-------------------------|--------------|
| | Average Balance | Interest Income/Expense | Yields/Rates | Average Balance | Interest Income/Expense | Yields/Rates |
| (in thousands) | | | | | | |
| ASSETS: | | | | | | |
| Loans: | | | | | | |
| Mortgage | \$ 3,428,296 | \$ 43,111 | 5.04% | \$ 4,704,576 | \$ 49,897 | 4.25% |
| Commercial and consumer | 2,520,610 | 37,393 | 6.02% | 3,285,954 | 47,242 | 5.83% |
| Total loans ⁽¹⁾ | 5,948,906 | 80,504 | 5.45% | 7,990,530 | 97,139 | 4.90% |
| MBS ⁽²⁾ | 2,590,546 | 20,034 | 3.09% | 1,792,460 | 19,826 | 4.42% |
| Investments and cash ⁽²⁾ | 792,959 | 3,900 | 1.99% | 962,400 | 3,887 | 1.64% |
| FHLB stock | 99,953 | 0 | 0.00% | 100,682 | 0 | 0.00% |
| Total interest-earning assets | 9,432,364 | 104,438 | 4.46% | 10,846,072 | 120,852 | 4.49% |
| Noninterest-earning assets ⁽³⁾ | 68,518 | | | (152,171) | | |
| Total average assets | \$ 9,500,882 | | | \$ 10,693,901 | | |
| LIABILITIES and EQUITY: | | | | | | |
| Deposits: | | | | | | |
| Interest-bearing transaction | \$ 493,651 | 146 | 0.12% | \$ 1,040,020 | 863 | 0.34% |
| Savings and MMDA | 1,959,561 | 1,970 | 0.41% | 1,557,907 | 2,949 | 0.77% |
| Time deposits | 3,453,419 | 15,178 | 1.78% | 4,070,961 | 23,639 | 2.35% |
| Total interest-bearing deposits | 5,906,631 | 17,294 | 1.19% | 6,668,888 | 27,451 | 1.67% |
| Borrowings | 1,694,391 | 12,200 | 2.92% | 2,564,223 | 17,155 | 2.71% |
| Total interest-bearing liabilities | 7,601,022 | 29,494 | 1.57% | 9,233,111 | 44,606 | 1.96% |
| Noninterest-bearing transaction | 1,005,290 | 0 | 0.00% | 991,447 | 0 | 0.00% |
| Total funding liabilities | 8,606,312 | 29,494 | 1.39% | 10,224,558 | 44,606 | 1.77% |
| Other noninterest-bearing liabilities | 125,026 | | | 175,939 | | |
| Total average liabilities | 8,731,338 | | | 10,400,497 | | |
| Total average equity | 769,544 | | | 293,404 | | |
| Total average liabilities and equity | \$ 9,500,882 | | | \$ 10,693,901 | | |

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| | | | | | | |
|---|--------------|-----------|-------|--------------|-----------|-------|
| Net interest income and spread ⁽⁴⁾ | | \$ 74,944 | 2.89% | | \$ 76,246 | 2.53% |
| Net interest margin ⁽⁴⁾ | | | 3.22% | | | 2.85% |
| Deposits: | | | | | | |
| Total interest-bearing deposits | \$ 5,906,631 | \$ 17,294 | 1.19% | \$ 6,668,888 | \$ 27,451 | 1.67% |
| Noninterest-bearing transaction | 1,005,290 | 0 | 0.00% | 991,447 | 0 | 0.00% |
| Total deposits | \$ 6,911,921 | \$ 17,294 | 1.01% | \$ 7,660,335 | \$ 27,451 | 1.45% |

- (1) Includes gross nonperforming loans.
- (2) Does not include market value adjustments on available for sale securities.
- (3) Includes charge-offs on nonperforming loans (confirmed losses) and the allowance for credit losses.
- (4) Interest income on certain loans and securities are presented gross of their applicable tax savings using a 37% effective tax rate.

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The following table sets forth the return on average assets and return on average common equity for the periods presented:

| | Three Months Ended March 31, | |
|---------------------------------|------------------------------|-------------------|
| | 2011 | 2010 |
| Return on average assets | 0.23% | -3.20% |
| Return on average common equity | 2.85% | NM ⁽¹⁾ |

⁽¹⁾ NM stands for "not meaningful," as the balance of common equity reflected a deficiency as of the date indicated.

Net Interest Income. Sterling reported net interest income of \$73.7 million for the three months ended March 31, 2011, representing a decline of 2% compared with \$74.9 million for the three months ended March 31, 2010. The decline in net interest income over the periods presented mainly reflects a decline in average loan balances. The effect of the decline in average loan balances was mostly offset by expansion in the net interest margin, which was 3.22% during the first quarter of 2011 versus 2.85% in the same period a year earlier. The net interest margin expanded primarily due to the decline in nonperforming loans and the reduced cost of deposits. The reversal of interest income from nonperforming loans reduced the net interest margin by 53 basis points for the first quarter of 2011, compared with 87 basis points for the first quarter of 2010.

Provision for Credit Losses. Management's policy is to establish valuation allowances for estimated losses by charging corresponding provisions against income. The evaluation of the adequacy of specific and general valuation allowances is an ongoing process. This process includes information derived from many factors, including historical loss trends, trends in classified assets, trends in delinquent and nonaccrual loans, trends in portfolio volume, diversification as to type of loan, size of individual credit exposure, current and anticipated economic conditions, loan policies, collection policies and effectiveness, quality of credit evaluation, effectiveness of policies, procedures and practices, and recent loss experience of peer banking institutions.

Sterling recorded provisions for credit losses of \$10.0 million and \$88.6 million for the three months ended March 31, 2011 and 2010, respectively. The reduced level of credit loss provisioning reflects improvement in asset quality as evidenced by the decline in nonperforming loans and charge-offs.

Noninterest Income. Non-interest income was as follows for the periods presented:

| | Three Months Ended March 31, | | |
|---------------------------------|------------------------------|------------------|------------|
| | 2011 | 2010 | % change |
| | (in thousands) | | |
| Fees and service charges | \$ 12,561 | \$ 13,035 | -4% |
| Mortgage banking operations | 10,327 | 11,232 | -8% |
| Loan servicing fees | 1,101 | 1,146 | -4% |
| BOLI | 1,732 | 2,295 | -25% |
| Gains on sales of securities | 6,001 | 1,911 | 214% |
| Other | (1,740) | (4,322) | -60% |
| Total noninterest income | \$ 29,982 | \$ 25,297 | 19% |

Increases in gains on sales of securities, combined with lower losses on portfolio loan sales (which are included in other), were the primary causes of variances in noninterest income. Securities sales were driven both from the realization of certain valuations, and rebalancing of the portfolio to reduce duration levels. Other noninterest income for the three months ended March 31, 2010 included \$3.7 million of losses on the sale of loans, primarily due to the sale of \$218.5 million of consumer indirect auto loans. The reduction in fees and service charges primarily relate to lower non-sufficient funds fees. The decline in mortgage banking income related to a lower level of residential loan originations. BOLI income for the 2010 period included \$699,000 of death benefit proceeds in excess of cash surrender value. The following table presents components of mortgage banking income for the periods presented:

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| | Three Months Ended March 31, | |
|--|------------------------------|------------|
| | 2011 | 2010 |
| | (in thousands) | |
| Loan originations - residential real estate for sale | \$ 363,118 | \$ 414,443 |
| Loan sales - residential | 498,310 | 486,605 |
| Margin on residential loan sales | 2.48% | 2.07% |

Noninterest Expense. Noninterest expense was as follows for the periods presented:

| | Three Months Ended March 31, | | |
|--|------------------------------|-----------|----------|
| | 2011 | 2010 | % Change |
| | (in thousands) | | |
| Employee compensation and benefits | \$ 43,850 | \$ 40,059 | 9% |
| OREO operations | 11,400 | 10,923 | 4% |
| Occupancy and equipment | 9,822 | 9,946 | -1% |
| Data processing | 6,080 | 5,105 | 19% |
| Insurance | 4,504 | 12,685 | -64% |
| Professional fees | 3,058 | 6,380 | -52% |
| Depreciation | 3,012 | 3,568 | -16% |
| Advertising | 1,960 | 2,583 | -24% |
| Travel and entertainment | 1,236 | 716 | 73% |
| Amortization of core deposit intangibles | 1,225 | 1,225 | 0% |
| Other | 2,161 | 2,787 | -22% |
| Total noninterest expense | \$ 88,308 | \$ 95,977 | -8% |

The decrease in noninterest expense was primarily due to a lower level of FDIC deposit insurance premiums and professional fees. Insurance, which is primarily comprised of FDIC deposit insurance premiums, declined compared with the first quarter of 2010 due to the higher assessment rates that were applicable to Sterling Savings Bank last year prior to its returning to a well-capitalized status. Professional fees decreased compared to the same period a year earlier, because the 2010 period included advisory costs related to Sterling's recapitalization.

Income Tax Provision. During the periods presented, Sterling did not recognize any federal or state tax expense or benefit, as the income tax provision was offset by changes in the deferred tax valuation allowance. As of March 31, 2011, the reserved deferred tax asset was approximately \$358 million, including approximately \$271 million of net operating loss carry-forwards.

Financial Position

Assets. At March 31, 2011, Sterling's assets were \$9.35 billion, down \$140.7 million from \$9.49 billion at December 31, 2010, primarily as a result of a decline in loan balances.

Investment Securities and MBS. Sterling's investment and MBS portfolio at March 31, 2011 was \$2.82 billion, compared with \$2.84 billion at December 31, 2010, with purchases mostly offsetting sales, prepayments and maturities during the period. On March 31, 2011, the investment and MBS portfolio had an unrealized loss of \$10.6 million versus an unrealized loss of \$6.6 million at December 31, 2010.

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Loans Receivable. The following table sets forth the composition of Sterling's loan portfolio by type of loan at the dates indicated:

| | March 31, 2011 | | December 31, 2010 | |
|-------------------------------|----------------|------|-------------------|------|
| | Amount | % | Amount | % |
| | (in thousands) | | | |
| Residential real estate | \$ 719,458 | 12.9 | \$ 758,410 | 13.5 |
| Multifamily real estate | 638,250 | 11.5 | 517,022 | 9.2 |
| Commercial real estate | 1,400,867 | 25.2 | 1,314,657 | 23.3 |
| Construction: | | | | |
| Residential | 106,051 | 1.9 | 156,853 | 2.8 |
| Multifamily | 72,885 | 1.3 | 90,518 | 1.6 |
| Commercial | 217,364 | 3.9 | 278,297 | 4.9 |
| Total Construction | 396,300 | 7.1 | 525,668 | 9.3 |
| Consumer | 715,206 | 12.9 | 744,068 | 13.2 |
| Commercial banking | 1,686,573 | 30.4 | 1,770,426 | 31.5 |
| Gross loans receivable | 5,556,654 | 100% | 5,630,251 | 100% |
| Net deferred origination fees | (2,826) | | (4,114) | |
| Allowance for losses on loans | (232,944) | | (247,056) | |
| Loans receivable, net | \$ 5,320,884 | | \$ 5,379,081 | |

During the first quarter of 2011, gross loan balances declined \$73.6 million, including anticipated reductions in construction loans that totaled \$129.4 million. Multifamily real estate originations increased \$92.2 million from the linked quarter, reflecting Sterling's strategic focus on multifamily lending. Loan purchases included \$100.8 million of seasoned commercial real estate loans for both owner-occupied and non-owner-occupied properties within Sterling's footprint. The following table sets forth Sterling's loan originations and purchases for the periods indicated:

| | March 31, 2011 | Three Months Ended | |
|-------------------------|-------------------|----------------------|-------------------|
| | | December 31, 2010 | March 31, 2010 |
| | (in thousands) | | |
| Loan originations: | | | |
| Residential real estate | \$ 387,481 | \$ 777,238 | \$ 431,057 |
| Multifamily real estate | 119,846 | 27,642 | 750 |
| Commercial real estate | 34,130 | 30,180 | 32,090 |
| Construction: | | | |
| Residential | 4,196 | 6,502 | 3,591 |
| Multifamily | 0 | 0 | 0 |
| Commercial | 0 | 0 | 500 |
| Total construction | 4,196 | 6,502 | 4,091 |
| Consumer | 28,357 | 19,449 | 28,287 |
| Commercial banking | 54,390 | 35,098 | 45,928 |
| Total loan originations | 628,400 | 896,109 | 542,203 |
| Loan purchases: | | | |
| Residential real estate | 7,550 | 0 | 0 |
| Multifamily real estate | 2,440 | 82,702 | 0 |

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| | | | |
|---------------------------------------|------------|------------|------------|
| Commercial real estate | 100,805 | 0 | 0 |
| Total loan purchases | 110,795 | 82,702 | 0 |
| Total loan originations and purchases | \$ 739,195 | \$ 978,811 | \$ 542,203 |

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The decline in residential real estate originations over the periods presented reflects a lower level of refinancing activity due to higher mortgage rates. The change from the December 31, 2010 quarter also reflects the impact of seasonality within the real estate market.

The following table presents a roll-forward of the allowance for credit losses for the periods presented:

| | Three Months Ended March 31, | |
|---|------------------------------|------------|
| | 2011 | 2010 |
| | (in thousands) | |
| Allowance for credit losses | | |
| Allowance - loans, January 1 | \$ 247,056 | \$ 343,443 |
| Provision | 10,000 | 87,890 |
| Charge-offs | (29,744) | (143,859) |
| Recoveries | 5,632 | 7,324 |
| Transfers | 0 | 0 |
| Allowance - loans, March 31 | 232,944 | 294,798 |
| Allowance - unfunded commitments, January 1 | 10,707 | 11,967 |
| Provision | 0 | 666 |
| Charge-offs | (66) | (310) |
| Transfers | 0 | 0 |
| Allowance - unfunded commitments, March 31 | 10,641 | 12,323 |
| Total credit allowance | \$ 243,585 | \$ 307,121 |

See Note 3 of the Notes to Consolidated Financial Statements for further details by loan segment for changes in the allowance for credit losses. The following table presents classified assets, which are comprised of performing substandard loans, nonperforming loans and OREO:

| | March 31, | December 31, | March 31, |
|---------------------------------|----------------|--------------|--------------|
| | 2011 | 2010 | 2010 |
| | (in thousands) | | |
| Residential real estate | \$ 59,777 | \$ 104,467 | \$ 135,327 |
| Multifamily real estate | 35,726 | 43,331 | 81,386 |
| Commercial real estate | 104,788 | 173,444 | 165,240 |
| Construction | | | |
| Residential construction | 67,837 | 112,600 | 407,325 |
| Commercial construction | 126,444 | 186,229 | 301,686 |
| Multifamily construction | 55,272 | 76,818 | 119,902 |
| Total construction | 249,553 | 375,647 | 828,913 |
| Consumer | 9,353 | 18,868 | 18,737 |
| Commercial banking | 200,860 | 222,125 | 282,616 |
| Total classified loans | 660,057 | 937,882 | 1,512,219 |
| OREO | 151,774 | 161,653 | 103,973 |
| Total classified assets | \$ 811,831 | \$ 1,099,535 | \$ 1,616,192 |
| Classified assets/ total assets | 8.68% | 11.58% | 15.31% |

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Classified assets declined \$287.7 million, or 26% during the three months ended March 31, 2011. The reductions were primarily due to upgraded risk ratings mostly related to loans that have performed in accordance with their original terms, but were previously classified due to a decline in the value of their underlying collateral, as well as resolutions of nonperforming loans.

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The following table provides information regarding the classified loans of the top 30 borrowing relationships as of March 31, 2011, which together constituted 32% of all classified assets at period end:

| Description | Location | March 31, 2011 (in thousands) |
|--|----------------------------|----------------------------------|
| Commercial Construction & Real Estate: 5 loans | Other WA & Other OR | \$ 28,724 |
| Commercial & Residential Construction: 2 loans | Puget Sound, WA & Other ID | 21,368 |
| Commercial Construction & Commercial: 2 loans | Puget Sound, WA & Other OR | 14,576 |
| Commercial Construction: 1 loan | Puget Sound, WA & Other WA | 13,761 |
| Commercial Construction & Real Estate: 3 loans | Puget Sound, WA | 13,625 |
| Commercial Real Estate: 1 loan | Puget Sound, WA | 9,965 |
| Commercial Construction: 1 loan | Other OR | 8,470 |
| Commercial Real Estate: 1 loan | Northern CA | 8,439 |
| Commercial Real Estate: 2 loans | Northern CA | 8,381 |
| Residential Construction: 1 loan | Puget Sound, WA | 7,878 |
| Commercial Construction: 2 loans | Puget Sound, WA | 7,803 |
| Commercial Real Estate: 1 loan | Northern CA | 7,621 |
| Residential Construction: 2 loans | Portland, OR & Other OR | 7,245 |
| Multifamily: 1 loan | Puget Sound, WA | 6,629 |
| Commercial Real Estate & Commercial: 5 loans | Portland, OR & Other OR | 6,623 |
| Multifamily: 1 loan | Puget Sound, WA | 6,616 |
| Commercial Real Estate & Residential Construction: 5 loans | Portland, OR | 6,497 |
| Commercial Construction: 1 loan | Puget Sound, WA | 6,085 |
| Residential Construction: 83 loans | Portland, OR | 5,956 |
| Commercial: 2 loans | Arizona | 5,884 |
| Multifamily: 1 loan | Portland, OR | 5,817 |
| Commercial Construction: 2 loans | Other ID & Other OR | 5,794 |
| Commercial Real Estate: 2 loans | Puget Sound, WA & Other WA | 5,734 |
| Residential & Commercial Real Estate: 44 loans | Portland, OR & Other OR | 5,531 |
| Commercial Construction: 1 loan | Northern CA | 5,499 |
| Commercial: 6 loans | Other WA | 5,215 |
| Commercial & Residential Construction: 2 loans | Northern & Southern CA | 5,150 |
| Commercial Construction: 1 loan | Arizona | 5,095 |
| Commercial Construction & Real Estate: 2 loans | Northern CA | 4,995 |
| Commercial Construction: 1 loan | Utah | 4,916 |
| | | \$ 255,892 |

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Nonperforming assets, a subset of classified assets that includes nonperforming loans and OREO, and related information are summarized in the following table as of the dates indicated:

| | March 31, 2011 | December 31, 2010 (in thousands) | March 31, 2010 |
|---|-------------------|--|-------------------|
| Past due 90 days or more and accruing | \$ 0 | \$ 0 | \$ 0 |
| Nonaccrual loans | 380,388 | 546,133 | 821,981 |
| Restructured loans | 96,679 | 108,504 | 136,785 |
| Total nonperforming loans | 477,067 | 654,637 | 958,766 |
| OREO | 151,774 | 161,653 | 103,973 |
| Total nonperforming assets | 628,841 | 816,290 | 1,062,739 |
| Specific reserve - loans | (21,483) | (21,237) | (19,025) |
| Net nonperforming assets | \$ 607,358 | \$ 795,053 | \$ 1,043,714 |
| Nonperforming loans before charge-offs, gross | \$ 590,580 | \$ 858,805 | \$ 1,325,755 |
| Charge-offs on nonperforming loans | (244,740) | (319,773) | (530,202) |
| Nonperforming loans, net of charge-offs | 345,840 | 539,032 | 795,553 |
| Nonperforming loans without charge-offs ⁽¹⁾ | 131,227 | 115,605 | 163,213 |
| Total nonperforming loans | \$ 477,067 | \$ 654,637 | \$ 958,766 |
| Nonperforming assets to total assets | 6.72% | 8.60% | 10.07% |
| Nonperforming loans to loans | 8.59% | 11.64% | 13.62% |
| Nonperforming loans carried at fair value to total nonperforming loans | 72% | 82% | 83% |
| Charge-offs plus specific loan reserves to gross nonperforming loans | 45% | 40% | 41% |
| Loan loss allowance to nonperforming loans | 49% | 38% | 31% |
| Loan loss allowance to nonperforming loans excluding loans carried at fair value ⁽²⁾ | 161% | 195% | 169% |

(1) Charge-offs have not been recorded on these nonperforming loans, as the value of the underlying collateral exceeds the carrying value of the loans.

(2) Excludes the specific loan loss reserve.

As of March 31, 2011, Sterling has recognized charge-offs, which are also referred to as confirmed losses, totaling \$244.7 million on collateral dependent nonperforming loans held in its portfolio. As a result of these confirmed losses, Sterling has written down the carrying value of these loans to the appraisal value of their underlying collateral. The allowance for loan losses to nonperforming loans, excluding these loans for which the full loss to date has been charged off, was 161% of nonperforming loans at March 31, 2011. Further declines in real estate appraisal values could result in additional losses on these loans.

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The following table presents certain information on Sterling's nonperforming assets:

| | March 31, 2011 | | December 31, 2010 (in thousands) | | March 31, 2010 | |
|--|-------------------|-------------|-------------------------------------|-------------|---------------------|-------------|
| Residential construction | | | | | | |
| Puget Sound | \$ 35,617 | 6% | \$ 55,365 | 7% | \$ 147,982 | 14% |
| Portland, OR | 35,594 | 6% | 48,781 | 6% | 111,094 | 10% |
| Bend, OR | 1,199 | 0% | 7,479 | 1% | 19,544 | 2% |
| Northern California | 5,555 | 1% | 9,474 | 1% | 19,231 | 2% |
| Vancouver, WA | 7,697 | 1% | 12,455 | 2% | 17,580 | 2% |
| Boise, ID | 1,034 | 0% | 2,614 | 0% | 14,814 | 1% |
| Southern California | 3,558 | 1% | 4,574 | 1% | 7,647 | 1% |
| Other | 21,830 | 3% | 24,918 | 3% | 57,432 | 5% |
| Total residential construction | 112,084 | 18% | 165,660 | 21% | 395,324 | 37% |
| Commercial construction | | | | | | |
| Southern California | 17,956 | 3% | 27,227 | 3% | 39,833 | 4% |
| Puget Sound | 32,243 | 5% | 48,619 | 6% | 37,601 | 4% |
| Northern California | 25,022 | 4% | 45,132 | 6% | 30,976 | 3% |
| Other | 75,314 | 12% | 76,860 | 9% | 85,210 | 8% |
| Total commercial construction | 150,535 | 24% | 197,838 | 24% | 193,620 | 19% |
| Multifamily construction | | | | | | |
| Puget Sound | 39,221 | 6% | 41,407 | 5% | 47,289 | 4% |
| Portland, OR | 5,817 | 1% | 7,420 | 1% | 15,497 | 1% |
| Other | 16,933 | 3% | 17,965 | 2% | 27,269 | 3% |
| Total multifamily construction | 61,971 | 10% | 66,792 | 8% | 90,055 | 8% |
| Total construction | 324,590 | 52% | 430,290 | 53% | 678,999 | 64% |
| Commercial banking | 109,003 | 17% | 110,872 | 14% | 144,893 | 14% |
| Commercial real estate | 80,626 | 13% | 123,146 | 15% | 92,379 | 9% |
| Residential real estate | 83,173 | 13% | 115,923 | 14% | 82,863 | 8% |
| Multifamily real estate | 21,089 | 3% | 25,806 | 3% | 54,767 | 5% |
| Consumer | 10,360 | 2% | 10,253 | 1% | 8,838 | 0% |
| Total nonperforming assets | 628,841 | 100% | 816,290 | 100% | 1,062,739 | 100% |
| Specific reserve - loans | (21,483) | | (21,237) | | (19,025) | |
| Net nonperforming assets ⁽¹⁾ | \$ 607,358 | | \$ 795,053 | | \$ 1,043,714 | |

(1) Net of cumulative confirmed losses on loans and OREO of \$423.8 million for March 31, 2011, \$516.3 million for December 31, 2010, and \$626.3 million for March 31, 2010.

During the first quarter of 2011, Sterling returned \$78.8 million of previously impaired loans and \$13.4 million of restructured loans to accruing status. These loans had been current for at least six months and were expected to continue to perform in accordance with their loan terms.

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Deposits. The following table sets forth the composition of Sterling's deposits at the dates indicated:

| | March 31, 2011 | | December 31, 2010 | |
|---------------------------------|----------------|------|-------------------|------|
| | Amount | % | Amount | % |
| | (in thousands) | | | |
| Interest-bearing transaction | \$ 499,805 | 8% | \$ 497,395 | 7% |
| Noninterest-bearing transaction | 1,007,684 | 15% | 992,368 | 14% |
| Savings and MMDA | 1,972,781 | 29% | 1,886,425 | 27% |
| Time deposits - brokered | 331,726 | 5% | 249,029 | 4% |
| Time deposits - retail | 2,912,431 | 43% | 3,285,790 | 48% |
| Total deposits | \$ 6,724,427 | 100% | \$ 6,911,007 | 100% |

Changes in deposits during the first quarter of 2011 primarily reflect a reduction in retail time deposits, and were partially offset by the increase in transaction, savings and MMDA. The reduction in retail time deposits during the quarter was expected, as Sterling allowed some higher rate deposits to runoff, thereby improving the deposit mix and reducing funding costs.

Borrowings. Deposit accounts are Sterling's primary source of funds. Sterling uses other borrowings to supplement its deposit gathering efforts. These borrowings include advances from the FHLB, reverse repurchase agreements, primary credits and term auction facilities from the Federal Reserve. The aggregate amount of these borrowings outstanding remained relatively unchanged at March 31, 2011 as compared with December 31, 2010.

Asset and Liability Management

The principal objective of Sterling's asset and liability management activities is to provide optimum levels of net interest income and stable sources of funding while maintaining acceptable levels of interest-rate risk and liquidity risk. The Asset/Liability Committee (ALCO) measures interest rate risk exposure primarily through interest rate shock simulations for both net interest income and the economic value of equity (EVE). Interest rate risk arises from mismatches in assets and liabilities, with mismatches due to differences in the timing of rate repricing for the various instruments, the amount or volume of the underlying assets and liabilities that are repricing, and by how much or the level at which the rate is repricing. The specific characteristics of the underlying assets and liabilities, including any embedded optionality, such as a prepayment option on a loan, influence these differences.

The net interest income interest rate shock simulation measures the effect of changes in interest rates on net interest income over 12 months. This simulation consists of measuring the change in net interest income over the next 12 months from the base case scenario, from which rates are shocked, in a parallel fashion, up and down. The base case uses the assumption of the existing balance sheet and existing interest rates. The simulation requires numerous assumptions, including relative levels of market interest rates, instantaneous and parallel shifts in the yield curve, loan prepayments and reactions of depositors to changes in interest rates, and should not be relied upon as being indicative of actual or future results. The analysis does not contemplate actions Sterling may undertake in response to changes in interest rates and market conditions. The results of this simulation are included in the following table for the periods presented:

| Change in Interest Rate in Basis Points (Rate Shock) | March 31, 2011 % Change in NII | December 31, 2010 % Change in NII |
|--|-----------------------------------|--------------------------------------|
| +300 | (10.3) | (11.2) |
| +200 | (5.3) | (5.5) |
| +100 | (1.8) | (2.4) |
| Static | 0.0 | 0.0 |
| -100 | N/A ⁽¹⁾ | N/A ⁽¹⁾ |

(1) Results are not meaningful in a low interest rate environment.

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EVE simulation analysis measures risk in the balance sheet that might not be taken into account in the net interest income simulation. Whereas net interest income simulation highlights exposure over a relatively short time period of 12 months, EVE simulation analysis incorporates all cash flows over the estimated remaining life of all balance sheet positions. The EVE simulation analysis of the balance sheet, at a point in time, is defined as the discounted present value of asset cash flows minus the discounted value of liability cash flows. The difference between the present value of the asset and liability represents the EVE. As with net interest income, the base case simulation uses current market rates, from which rates are shocked up and down in a parallel fashion. As with the net interest income simulation model, EVE simulation analysis is based on key assumptions about the timing and variability of balance sheet cash flows. However, because the simulation represents much longer time periods, inaccuracy of assumptions may increase the variability of outcomes within the simulation. It also does not take into account actions management may undertake in response to anticipated changes in interest rates. The results of this simulation are included in the following table for the periods presented:

| Change in Interest Rate in Basis Points (Rate Shock) | March 31, 2011 % Change in EVE | December 31, 2010 % Change in EVE |
|---|--|---|
| +300 | (22.2) | (21.7) |
| +200 | (10.4) | (8.2) |
| +100 | (3.0) | (1.4) |
| Static | 0.0 | 0.0 |
| -100 | N/A ⁽¹⁾ | N/A ⁽¹⁾ |

(1) Results are not meaningful in a low interest rate environment.

As of March 31, 2011, Sterling has customer-related interest rate swap derivatives outstanding with a total notional amount of \$96.3 million. For a description, see Note 10 of Notes to Consolidated Financial Statements. As of March 31, 2011, Sterling has not entered into any other derivative transactions as part of managing its interest rate risk. However, Sterling continues to consider derivatives, including non-customer related interest rate swaps, caps and floors as viable alternatives in the asset and liability management process.

Capital and Liquidity Management

Sterling's primary sources of funds are: retail, public and brokered deposits; the collection of principal and interest primarily from loans, as well as from mortgage backed securities; the sale of loans into the secondary market in connection with Sterling's mortgage banking activities; borrowings from the FHLB and the Federal Reserve; and borrowings from commercial banks (including reverse repurchase agreements). Public deposits from states, municipalities, and other public entities are generally obtained by competitive rate offerings and bidding among qualifying financial institutions. Certain states require collateralization for substantially all uninsured public deposits. Reverse repurchase agreements allow Sterling to sell investments (generally U.S. agency securities and MBS) under an agreement to buy them back at a specified price at a later date. These agreements to repurchase are deemed to be borrowings collateralized by the investments and MBS sold. The use of reverse repurchase agreements may expose Sterling to certain risks not associated with other borrowings, including interest rate risk and the possibility that additional collateral may have to be provided if the market value of the pledged collateral declines. Sterling Savings Bank's credit line with FHLB of Seattle provides for borrowings up to a percentage of its total assets, subject to collateralization requirements, with borrowing terms ranging from overnight to term advances. Sterling Savings Bank actively manages its liquidity in an effort to maintain an adequate margin over the level necessary to support the funding of loans and deposit withdrawals. Liquidity may vary from time to time, depending on economic conditions, deposit fluctuations, loan funding needs and regulatory requirements.

The total value of Sterling's cash and cash equivalents and securities was \$3.26 billion at March 31, 2011, compared with \$3.27 billion at December 31, 2010. Available liquidity as of March 31, 2011 of \$1.67 billion included unpledged portions of cash and cash equivalents and securities of \$929 million, available borrowing capacity from the FHLB and the Federal Reserve of \$602 million, as well as loans held for sale of \$136.4 million, and compared to total available liquidity of \$1.68 billion as of December 31, 2010.

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Sterling, on a parent company-only basis, had cash of approximately \$46.7 million and \$47.5 million at March 31, 2011 and December 31, 2010, respectively. The parent (holding) company's significant cash flows primarily relate to capital investments in and capital distributions from Sterling Savings Bank, capital distributions to shareholders, and interest payments on its junior subordinated debentures. During the third quarter of 2009, Sterling elected to defer regularly scheduled interest payments on its junior subordinated debentures, and continued to defer these payments through March 31, 2011. As of March 31, 2011 and December 31, 2010, the accrued deferred interest on junior subordinated debentures was \$10.9 million and \$9.4 million, respectively. Sterling is allowed to defer payments of interest on the junior subordinated debentures for up to 20 consecutive quarters without triggering an event of default. No cash dividends transacted during the periods presented. Sterling's ability to pay dividends is generally limited by its earnings, financial condition, and capital and regulatory requirements. During the third quarter of 2010, Sterling contributed \$650.0 million of capital to Sterling Savings Bank. No capital was downstreamed from Sterling to Sterling Savings Bank during the first quarter of 2011.

New Accounting Pronouncements

In July 2010, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") 2010-20, Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses. This update amends codification topic 310 on receivables to improve the disclosures that an entity provides about the credit quality of its financing receivables and the related allowance for credit losses. As a result of these amendments, an entity is required to disaggregate by portfolio segment or class certain existing disclosures and provide certain new disclosures about its financing receivables and related allowance for credit losses. This guidance was phased in, with the new disclosure requirements for period end balances effective as of December 31, 2010, and the new disclosure requirements for activity during the reporting period effective March 31, 2011. The troubled debt restructuring disclosures in this ASU have been delayed by ASU 2011-01, Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20, which was issued in January 2011. See Note 3 of Notes to Consolidated Financial Statements.

In April 2011, the FASB issued ASU 2011-2, A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring. This update to codification topic 310 provides guidance for what constitutes a concession, as well as clarity for determining whether a debtor is experiencing financial difficulties. The amendments in this update are effective for Sterling on July 1, 2011, with retrospective application from January 1, 2011. This update is not expected to have a material effect on Sterling's consolidated financial statements.

Regulation and Compliance

Sterling, as a bank holding company, is subject to ongoing comprehensive examination and regulation by the Federal Reserve, and Sterling Savings Bank, as a Washington State chartered bank, is subject to ongoing comprehensive regulation and examination by the Washington Department of Financial Institutions and the FDIC. Sterling Savings Bank is further subject to standard Federal Reserve regulations related to deposit reserves and certain other matters.

On September 27, 2010, Sterling announced the cease and desist order put in place in October 2009 with Sterling Savings Bank was terminated, reflecting a strengthened balance sheet and capital position. Although the cease and desist is no longer applicable, Sterling Savings Bank will continue to be subject to enhanced supervisory review by the FDIC and WDFI under a memorandum of understanding (the "SSB MOU"), pursuant to which Sterling Savings Bank must maintain Tier 1 capital in an amount that ensures that its leverage ratio is at least 8%. Sterling Savings Bank is also required to meet certain asset quality targets, develop a written capital plan, develop a three-year strategic plan and comply with other requirements.

As of the date of this filing, Sterling continues to be subject to a regulatory agreement with the Federal Reserve Bank of San Francisco (the "Reserve Bank Agreement"). Under the terms of the Reserve Bank Agreement, Sterling is subject to restrictions on its ability to pay dividends and distributions, incur debt, purchase or redeem its stock and appoint new board members or senior executive officers. Under the Reserve Bank Agreement, Sterling is also required to act as a source of strength to Sterling Savings Bank and to report quarterly to the Reserve Bank on steps taken to improve its capital ratios and risk, liquidity and fund management and on other matters.

Forward-Looking Statements

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From time to time, Sterling and its senior managers have made and will make forward-looking statements that are not historical facts and that are intended to be covered by the safe harbor for forward-looking statements provided by the Private Securities Litigation Reform Act of 1995. These forward-looking statements may include, but are not limited to, statements about Sterling's plans, objectives, expectations and intentions and other statements contained in this release that are not historical facts and pertain to Sterling's future operating results. When used in this report, the words expects, anticipates, intends, plans, believes, seeks, estimates and similar expressions are generally intended to identify forward-looking statements. We make forward-looking statements regarding projected sources of funds, use of proceeds, availability of acquisition and growth opportunities, ability to repay government funds, payment of dividends, adequacy of our allowance for loan and lease losses and provision for loan and lease losses, our real estate portfolio and subsequent charge-offs. Such statements may be contained in this report and in other documents that Sterling files with the Securities and Exchange Commission. Such statements may also be made by Sterling and its senior managers in oral or written presentations to analysts, investors, the media and others.

Actual results may differ materially from the results discussed in these forward-looking statements because such statements are inherently subject to significant assumptions, risks and uncertainties, many of which are difficult to predict and are generally beyond Sterling's control. These include but are not limited to:

our ability to maintain adequate liquidity;

our ability to comply with the Reserve Bank Agreement and the SSB MOU;

our ability to attract and retain deposits and loans;

demand for financial services in our market areas;

competitive market pricing factors;

further deterioration in economic conditions that could result in increased loan and lease losses;

risks associated with concentrations in real estate-related loans;

market interest rate volatility;

stability of funding sources and continued availability of borrowings;

changes in legal or regulatory requirements or the results of regulatory examinations that could restrict growth;

our ability to recruit and retain key management and staff;

risks associated with merger and acquisition integration;

our ability to incur debt on reasonable terms;

regulatory limits on the ability of Sterling Savings Bank to pay dividends to Sterling;

impact of legislative and regulatory change on the financial sector;

future legislative or administrative changes to the TARP Capital Purchase Program; and

the impact of legislative changes and related rules and regulations on Sterling's business operations and competitiveness, including the impact of executive compensation restrictions, which may affect Sterling's ability to retain and recruit executives in competition with other firms who do not operate under such restrictions.

Other factors that could cause actual conditions, events or results to differ significantly from those described in the forward-looking statements may be found under "Risk Factors" in Sterling's Annual Report on Form 10-K for the fiscal year ended December 31, 2010.

Item 3 Quantitative and Qualitative Disclosures About Market Risk

For a discussion of Sterling's market risks, see "Management's Discussion and Analysis - Asset and Liability Management."

**Item 4 Controls and Procedures
Disclosure Controls and Procedures**

Sterling's management, with the participation of Sterling's principal executive officer and principal financial officer, has evaluated the effectiveness of Sterling's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities and Exchange Act of 1934 (the "Exchange Act")) as of the end of the period covered by this report. Based on such evaluation, Sterling's principal executive officer and principal financial officer have concluded that, as of the end of such period, Sterling's disclosure controls and procedures are effective.

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in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by Sterling in the reports that it files or submits under the Exchange Act.

Changes in Internal Control Over Financial Reporting

There were no changes in Sterling's internal control over financial reporting that occurred during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, Sterling's internal control over financial reporting.

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STERLING FINANCIAL CORPORATION

PART II Other Information

Item 1 Legal Proceedings

Securities Class Action Litigation

On December 11, 2009, a putative securities class action was filed in the United States District Court for the Eastern District of Washington against Sterling and certain of our current and former officers. The court appointed a lead plaintiff on March 9, 2010. On June 18, 2010, the lead plaintiff filed a consolidated complaint (the Complaint). The Complaint purports to be brought on behalf of a class of persons who purchased or otherwise acquired Sterling's stock during the period from July 23, 2008 to October 15, 2009. The Complaint alleges that defendants violated Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 by failing to disclose the extent of Sterling's delinquent commercial real estate, construction and land development loans, properly record losses for impaired loans, and properly reserve for loan losses, thereby causing Sterling's stock price to be artificially inflated during the purported class period. Plaintiffs seek unspecified damages and attorneys' fees and costs. Sterling believes the lawsuit is without merit and intends to defend against it vigorously. On August 30, 2010, Sterling moved to dismiss the Complaint. On March 2, 2011, after complete briefing, the court held a hearing on the motion to dismiss. The court has not yet issued an order on the motion. Failure by Sterling to obtain a favorable resolution of the claims set forth in the complaint could have a material adverse effect on our business, results of operations and financial condition. Currently, a loss resulting from these claims is not considered probable or estimable in amount.

ERISA Class Action Litigation

On January 20 and 22, 2010, two putative class action complaints were filed in the United States District Court for the Eastern District of Washington against Sterling Financial Corporation and Sterling Savings Bank (collectively, Sterling), as well as certain of Sterling's current and former officers and directors. The two complaints were merged in a Consolidated Amended Complaint (the Complaint) filed on July 16, 2010 in the same court. The Complaint does not name all of individuals named in the prior complaints, but it is expected that additional defendants will be added. The Complaint alleges that the defendants breached their fiduciary duties under sections 404 and 405 of the Employee Retirement Income Security Act of 1974, as amended (ERISA), with respect to the Sterling Savings Bank Employee Savings and Investment Plan (the 401(k) Plan) and the FirstBank Northwest Employee Stock Ownership Plan (ESOP) (collectively, the Plans). Specifically, the Complaint alleges that the defendants breached their duties by investing assets of the Plans in Sterling's securities when it was imprudent to do so, and by investing such assets in Sterling securities when defendants knew or should have known that the price of those securities was inflated due to misrepresentations and omissions about Sterling's business practices. The business practices at issue include alleged over-reliance on risky construction loans; alleged inadequate loan reserves; alleged spiking increases in nonperforming assets, nonperforming loans, classified assets, and 90+-day delinquent loans; alleged inadequate accounting for rising loan payment shortfalls; alleged unsafe and unsound banking practices; and a capital base that was allegedly inadequate to withstand the significant deterioration in the real estate markets. The putative class periods are October 22, 2007 to the present for the 401(k) Plan class, and October 22, 2007 to November 14, 2008 for the ESOP class. The Complaint seeks damages of an unspecified amount and attorneys' fees and costs. Sterling believes the lawsuit is without merit and intends to defend against it vigorously. A hearing on the motion to dismiss occurred on March 22, 2011, with the court indicating that it would take the motion under submission. The court has not yet issued an order on the motion. Failure by Sterling to obtain a favorable resolution of the claims set forth in the Complaint could have a material adverse effect on Sterling's business, results of operations, and financial condition. Currently, a loss resulting from these claims is not considered probable or estimable in amount.

Derivative Class Action Litigation

On February 10, 2010, a shareholder derivative action was filed in the Superior Court for Spokane County, Washington, purportedly on behalf of and for the benefit of Sterling, against certain of our current and former officers and directors. On August 2, 2010, plaintiff filed an amended complaint (the Complaint) alleging, among other claims, breach of fiduciary duty, aiding and abetting breach of fiduciary duty, and unjust enrichment. The Complaint alleges that the individual defendants failed to prevent Sterling from issuing improper financial

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STERLING FINANCIAL CORPORATION

PART II Other Information

statements, maintain a sufficient allowance for loan and lease losses, and establish effective credit risk management and oversight mechanisms regarding Sterling's commercial real estate, construction and land development loans, losses and reserves recorded for impaired loans, and accounting for goodwill and deferred tax assets. The Complaint seeks unspecified damages, restitution, disgorgement of profits, equitable and injunctive relief, attorneys' fees, accountants' and experts' fees, costs, and expenses. Because the Complaint is derivative in nature, it does not seek monetary damages from Sterling. However, Sterling may be required throughout the pendency of the action to advance the legal fees and costs incurred by the defendant officers and directors. On September 13, 2010, Sterling moved to dismiss the Complaint. The hearing on Sterling's motion to dismiss was held on January 14, 2011. On February 25, 2011, the court issued an order denying Sterling's motion to dismiss in its entirety. On April 12, 2011, Sterling filed a request for discretionary review with the Washington Court of Appeals. The appellate court commissioner will hold a hearing on the request on June 1, 2011. If the request is granted, Sterling will be permitted to appeal the court's order denying the motion to dismiss.

Item 1A Risk Factors

You should carefully consider the risks and uncertainties we describe in our Annual Report on Form 10-K for the fiscal year ended December 31, 2010 before deciding to invest in, or retain, shares of our common stock. These are not the only risks and uncertainties that we face. Additional risks and uncertainties that we do not currently know about or that we currently believe are immaterial, or that we have not predicted, may also harm our business operations or adversely affect us. If any of these risks or uncertainties actually occurs, our business, financial condition, operating results or liquidity could be materially harmed.

Item 2 Unregistered Sales of Equity Securities and Use of Proceeds

Not applicable.

Item 3 Defaults Upon Senior Securities

Not applicable.

Item 4 (Removed and Reserved)

Item 5 Other Information

Item 6 Exhibits

The exhibits filed as part of this report and the exhibits incorporated herein by reference are listed in the Exhibit Index at page E-1.

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STERLING FINANCIAL CORPORATION

Signatures

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

STERLING FINANCIAL CORPORATION

(Registrant)

May 9, 2011

Date

By: /s/ Robert G. Butterfield

Robert G. Butterfield

Senior Vice President, Controller, and

Principal Accounting Officer

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Exhibit Index

Exhibit

| No. | |
|------------|---|
| 3.1 | Restated Articles of Incorporation of Sterling. Filed as Exhibit 4.1 to Sterling's Amendment No. 1 to the Registration Statement on Form S-3 dated May 8, 2009 and incorporated by reference herein. |
| 3.2 | Articles of Amendment of Restated Articles of Incorporation of Sterling increasing the authorized shares of common stock. Filed as Exhibit 4.2 to Sterling's Amendment No. 1 to the Registration Statement on Form S-3 dated September 21, 2009 and incorporated by reference herein. |
| 3.3 | Articles of Amendment to Sterling's Restated Articles of Incorporation designating Fixed Rate Cumulative Mandatorily Convertible Preferred Stock, Series C. Filed as Exhibit 3.1 to Sterling's Current Report on Form 8-K dated August 30, 2010 and incorporated by reference herein. |
| 3.4 | Articles of Amendment to Sterling's Restated Articles of Incorporation eliminating par value of Sterling Common Stock. Filed as Exhibit 3.2 to Sterling's Current Report on Form 8-K dated August 30, 2010 and incorporated by reference herein. |
| 3.5 | Articles of Amendment to Sterling's Restated Articles of Incorporation designating Fixed Rate Cumulative Mandatorily Convertible Preferred Stock, Series B. Filed as Exhibit 3.3 to Sterling's Current Report on Form 8-K dated August 30, 2010 and incorporated by reference herein. |
| 3.6 | Articles of Amendment to Sterling's Restated Articles of Incorporation designating Fixed Rate Cumulative Mandatorily Convertible Preferred Stock, Series D. Filed as Exhibit 3.4 to Sterling's Current Report on Form 8-K dated August 30, 2010 and incorporated by reference herein. |
| 3.7 | Articles of Amendment to Sterling's Restated Articles of Incorporation increasing the authorized shares of common stock. Filed as exhibit 3.7 to Sterling's Amendment No. 1 to the Registration Statement on Form S-1 dated November 3, 2010 and incorporated by reference herein. |
| 3.8 | Articles of Amendment to Sterling's Restated Articles of Incorporation reducing the authorized shares of common stock. Filed as Exhibit 3.1 to Sterling's Current Report on Form 8-K dated November 18, 2010 and incorporated by reference herein. |
| 3.9 | Articles of Amendment to Sterling's Restated Articles of Incorporation regarding certain transfer restrictions. Filed as Exhibit 3.9 to Sterling's Annual Report on Form 10-K for the year ended December 31, 2010 and incorporated by reference herein. |
| 3.10 | Amended and Restated Bylaws of Sterling. Filed as Exhibit 3.1 to Sterling's Registration Statement on Form 8-K dated April 25, 2011, and incorporated by referenced herein. |
| 4.1 | Reference is made to Exhibits 3.1, 3.2, 3.3, 3.4, 3.5, 3.6, 3.7, 3.8, 3.9 and 3.10. |
| 4.2 | Form of Common Stock Certificate. Filed as Exhibit 4.3 to Sterling's Registration Statement on Form S-3 dated July 20, 2009 and incorporated by reference herein. |
| 4.3 | Shareholder Rights Plan, dated as of April 14, 2010, between Sterling Financial Corporation and American Stock Transfer & Trust Company, LLC, as Rights Agent, which includes the Form of Articles of Amendment to the Restated Articles of Incorporation of Sterling Financial Corporation (Series E Participating Cumulative Preferred Stock) as Exhibit A, the Summary of Terms of the Rights Agreement as Exhibit B and the Form of Right Certificate as Exhibit C. Filed as Exhibit 4.1 to Sterling's Current Report on Form 8-K filed on April 15, 2010 and incorporated by reference herein. |
| 4.4 | First Amendment to Shareholder Rights Plan, dated as of December 8, 2010, between Sterling Financial Corporation and American Stock Transfer & Trust Company, LLC, as Rights Agent. Filed as Exhibit 4.1 to Sterling's Current Report on Form 8-K filed on December 10, 2010 and incorporated by reference herein. |

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- 4.5 Form of Warrant to Purchase Shares of Sterling Common Stock, dated August 26, 2010 and issued to Thomas H. Lee Equity Fund VI, L.P., Thomas H. Lee Parallel Fund VI, L.P., Thomas H. Lee Parallel (DT) Fund VI, L.P. and THL Sterling Equity Investors, L.P. Filed as Exhibit 4.7 to Sterling's Registration Statement on Form S-1 dated September 24, 2010 and incorporated by reference herein.
- 4.6 Form of Warrant to Purchase Shares of Sterling Common Stock, dated August 26, 2010 and issued to Warburg Pincus Private Equity X, L.P. Filed as Exhibit 4.8 to Sterling's Registration Statement on Form S-1 dated September 24, 2010 and incorporated by reference herein.
- 4.7 Amended and Restated Warrant to purchase shares of Sterling Common Stock, dated August 26, 2010 and issued to the United States Department of the Treasury. Filed as Exhibit 4.9 to Sterling's Registration Statement on Form S-1 dated September 24, 2010 and incorporated by reference herein.
- 4.8 Sterling has outstanding certain long-term debt. None of such debt exceeds ten percent of Sterling's total assets; therefore, copies of the constituent instruments defining the rights of the holders of such debt are not included as exhibits. Copies of instruments with respect to such long-term debt will be furnished to the Securities and Exchange Commission upon request.
- 10.1 Employment Agreement by and between Sterling and Daniel G. Byrne, dated January 31, 2011. Filed as Exhibit 10.11 to Sterling's Annual Report on Form 10-K for the year ended December 31, 2010 and incorporated by reference herein.
- 10.2 Offer Letter by and between Sterling and Patrick J. Rusnak, dated January 21, 2011. Filed as Exhibit 10.1 to Sterling's Current Report on Form 8-K dated February 17, 2011 and incorporated by reference herein.
- 31.1 Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. Filed herewith.
- 31.2 Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. Filed herewith.
- 32.1 Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. Furnished herewith.
- 32.2 Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. Furnished herewith.