STERLING FINANCIAL CORP /WA/
Form S-4
August 31, 2006

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As filed with the Securities and Exchange Commission on August 31, 2006.

Registration No. 333-

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form S-4
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933
Sterling Financial Corporation
(Exact name of registrant as specified in its charter)

WASHINGTON	**6719**	**91-1572822**
(State or other jurisdiction of incorporation or organization)	*(Primary Standard Industrial Classification Code Number)*	*(I.R.S. Employer Identification No.)*

111 North Wall Street
Spokane, Washington 99201
(509) 227-5389
(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)

Andrew J. Schultheis, Secretary
Sterling Financial Corporation
111 North Wall Street
Spokane, Washington 99201
(509) 227-5389
(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies of communications to:

Andrew J. Schultheis, Esq.
Richard A. Repp, Esq.
Witherspoon, Kelley, Davenport & Toole, P.S.
1100 U.S. Bank Building
422 West Riverside Avenue
Spokane, Washington 99201
(509) 624-5265

John F. Breyer, Jr., Esq.
Breyer & Associates PC
8180 Greensboro Drive, Suite 785
McLean, Virginia 22102
(703) 883-1100

Approximate date of commencement of the proposed sale of the securities to the public: As soon as practicable after the effective date of this Registration Statement and upon consummation of the transactions described herein.

If the securities being registered on this Form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box. o

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

CALCULATION OF REGISTRATION FEE

itle of Each Class of rities to be Registered	Amount to be Registered(1)	Proposed Maximum Offering Price per Share	Proposed Maximum Aggregate Offering Price(2)	Amount of Registration F
mon Stock, $1 par value	4,991,563	N/A	$172,590,435	$18,467

(1) Represents an estimate of the maximum number of shares of Sterling Financial Corporation (Sterling) common stock, $1.00 par value per share, estimated to be issuable upon consummation of the merger of FirstBank NW Corp. (FirstBank NW) with and into Sterling as described herein.

(2) Calculated in accordance with Rule 457(c) and 457(f)(1) under the Securities Act by multiplying $28.47, the average of the high and low sales prices for FirstBank NW common stock, as reported on the Nasdaq Global Market on August 29, 2006, by the estimated maximum number of shares of FirstBank NW common stock that may be cancelled in the merger.

(3) Calculated in accordance with Rule 457(f) under the Securities Act by multiplying the proposed maximum aggregate offering price by 0.000107.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment that specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until the Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

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The information in this document is not complete and may be changed. We may not issue the securities offered by this document until the registration statement filed with the Securities and Exchange Commission is effective. This document is not an offer to sell these securities, and we are not soliciting an offer to buy these securities, in any state where the offer or sale is not permitted.

PRELIMINARY SUBJECT TO COMPLETION DATED [l], 2006

FirstBank NW Corp.
1300 16th Avenue
Clarkston, Washington 99403

To the Shareholders of FirstBank NW Corp.:

You are cordially invited to attend the Annual Meeting of Shareholders of FirstBank NW Corp (FirstBank NW). The meeting will be held at the Quality Inn, 700 Port Drive, Clarkston, Washington, on [l], 2006, at 2:00 p.m., local time.

As described in the enclosed proxy statement/prospectus, the board of directors of FirstBank NW has approved the Agreement and Plan of Merger that provides for the merger of FirstBank NW with and into Sterling Financial Corporation (Sterling) with Sterling being the surviving entity in the merger. We are seeking your vote on this important transaction, as well as the other matters to be considered at the annual meeting.

If the merger is completed, Sterling will issue 0.7890 shares of Sterling common stock and $2.55 in cash in exchange for each outstanding share of FirstBank NW common stock. Sterling s common stock is traded on the Nasdaq Global Select Market under the symbol STSA. Based on the closing sales price of Sterling s common stock of $[l] per share on [l], 2006, each FirstBank NW shareholder would receive cash and shares valued at approximately $[l] per share of FirstBank NW common stock. The value of the merger consideration will fluctuate with the market price of Sterling common stock.

We cannot complete the merger unless FirstBank NW shareholders approve the merger agreement. Your vote is very important. FirstBank NW will hold its annual meeting of shareholders on [l], 2006 to vote on the merger agreement, as well as the election of directors and ratification of the appointment of auditors. Your board of directors recommends that you vote FOR approval of the merger agreement and the other items to be considered at the annual meeting. Whether or not you plan to attend the annual meeting, please take the time to vote on the proposal to approve the merger agreement and the other matters to be considered by completing and mailing the enclosed proxy card to us. **Please vote as soon as possible to make sure that your shares are represented at the annual meeting. If you do not vote, it will have the same effect as voting against the merger agreement.**

We encourage you to read carefully the detailed information about the merger contained in this proxy statement/prospectus, including the section entitled Risk Factors beginning on page 14. The proxy statement/prospectus incorporates important business and financial information and risk factors about Sterling that are not included in or delivered with this document. See the section entitled Where You Can Find More Information on page 94.

We look forward to seeing you at the meeting.

[l]

Clyde E. Conklin

President and Chief Executive Officer
FirstBank NW Corp.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the shares to be issued under this proxy statement/prospectus or passed upon the adequacy or accuracy of this proxy statement/prospectus. Any representation to the contrary is a criminal offense.

The securities that Sterling is offering through this proxy statement/prospectus are not savings or deposit accounts or other obligations of any bank or nonbank subsidiary of Sterling or FirstBank NW, and they are not insured by the Federal Deposit Insurance Corporation, the Deposit Insurance Fund, or any other governmental agency.

You should rely only on the information provided or incorporated by reference in this proxy statement/prospectus. We have not authorized anyone to provide you with different information. We are not making an offer of these securities in any state where the offer is not permitted. You should not assume that the information in this proxy statement/prospectus is accurate as of any date other than the date below.

This proxy statement/prospectus is dated [l], 2006 and is first being mailed to FirstBank NW shareholders on or about [l], 2006.

REFERENCES TO ADDITIONAL INFORMATION

This proxy statement/prospectus incorporates important business and financial information about Sterling from other documents that are not included in or delivered with this document. This information is available to you without charge upon written or oral request. You can obtain documents relating to Sterling that are incorporated by reference in this document through the website of the Securities and Exchange Commission (SEC) at www.sec.gov or by requesting them in writing or by telephone from Sterling or FirstBank NW at the appropriate company:

Sterling Financial Corporation
111 North Wall Street
Spokane, Washington 99201
Attn: Investor Relations
(509) 227-5389

FirstBank NW Corp.
1300 16th Avenue
Clarkston, Washington 99403
Attn: Investor Relations
(509) 295-5100

All website addresses given in this document are for information only and are not intended to be an active link or to incorporate any website information into this document.

Please note that copies of the documents provided to you will not include exhibits, unless the exhibits are specifically incorporated by reference into the documents or this document.

If you would like to request documents, please do so by [l], 2006 in order to receive them before FirstBank NW s annual meeting of shareholders. See the section entitled Where You Can Find More Information on page 94.

This proxy statement/prospectus is accompanied by a copy of the FirstBank NW s 2006 Annual Report to Shareholders, including financial statements, referred to in this document as the Annual Report. Any shareholder who has not received a copy of the Annual Report may obtain a copy by writing to FirstBank NW as set forth above.

FirstBank NW Corp.
1300 16th Avenue
Clarkston, Washington 99403

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

Date: Wednesday, [l], 2006

Time: 2:00 p.m., local time

Place: Quality Inn
700 Port Drive
Clarkston, Washington

TO OUR SHAREHOLDERS:

We are pleased to notify you of and invite you to our annual meeting of shareholders. At the meeting, you will be asked to vote on the following matters:

the election of four directors to serve until completion of the merger or, if the merger is not completed, until 2009 in the case of three directors and until 2007 in the case of one director;

the ratification of the appointment of Moss Adams LLP as independent auditors for FirstBank NW for the fiscal year ending March 31, 2007;

approval of the Agreement and Plan of Merger, dated as of June 4, 2006, by and between Sterling Financial Corporation and FirstBank NW Corp. The merger agreement provides the terms and conditions under which it is proposed that FirstBank NW merge with Sterling, as described in the accompanying proxy statement/prospectus;

any proposal of the FirstBank NW board of directors to adjourn or postpone the annual meeting, if necessary; and

any other business that may be properly submitted to a vote at the annual meeting or any adjournment or postponement of the annual meeting.

Common shareholders of record at the close of business on [l], 2006 are entitled to notice of, and to vote at, the annual meeting and any adjournments or postponements of the annual meeting. The affirmative vote of the holders of a majority of the outstanding shares of FirstBank NW common stock as of that date is required to approve the merger agreement. Directors will be elected by a plurality of the votes cast and ratification of the appointment of the independent auditors requires the affirmative vote of a majority of the outstanding shares of common stock present in person or by proxy and entitled to vote at the annual meeting.

In connection with the proposed merger, you may exercise dissenters rights as provided under the Revised Code of Washington. If you meet all of the requirements under applicable Washington law, and follow all of its required procedures, you may receive cash in the amount equal to the fair value of your shares of common stock. The procedure for exercising your dissenters rights is summarized under the heading Dissenters Rights in the attached proxy statement/prospectus. The relevant Washington statutory provisions regarding dissenters rights are attached to this document as Appendix C.

Your vote is very important. To ensure that your shares are voted at the annual meeting, please complete, sign and date your proxy card and return it in the enclosed envelope promptly. If you hold your shares in street name with a bank or broker, you can also vote by telephone or through the internet.

BY ORDER OF THE BOARD OF DIRECTORS

[l]
Larry K. Moxley
Secretary

[l], 2006

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QUESTIONS AND ANSWERS ABOUT THE MERGER

The following are some of the questions that you, as a shareholder of FirstBank NW, may have and answers to those questions. These questions and answers, as well as the following summary, are not meant to be a substitute for the information contained in the remainder of this document, and this information is qualified in its entirety by the more detailed descriptions and explanations contained elsewhere in this document. We urge you to read this document in its entirety prior to making any decision as to your FirstBank NW common stock and the merger agreement.

Q1: Why do Sterling and FirstBank NW want to merge?

A1: We want to merge because we each believe the merger will benefit our community, customers, employees and shareholders. We each have long been committed to serving the various communities that comprise our local customer bases. In addition, for FirstBank NW, the merger will allow its customers access to a number of products and services that cannot be offered to them now on a cost-effective basis, and will expand the number of branch locations available to them.

Q2: What will FirstBank NW shareholders receive in the merger?

A2: FirstBank NW shareholders will receive, in exchange for each share of FirstBank NW common stock they hold, consideration equal to 0.7890 shares of Sterling common stock and $2.55 in cash. Because the market price of Sterling common stock is subject to fluctuation, the value of the shares of Sterling common stock that you may receive in the merger may increase or decrease prior to and after the merger.

Q3: What is being voted on at the annual meeting?

A3: In addition to voting on the approval of the merger agreement, FirstBank NW shareholders will be voting on the election of four directors of FirstBank NW and the ratification of the appointment of Moss Adams LLP as FirstBank NW s independent auditors for the fiscal year ending March 31, 2007 as well as any proposal of the FirstBank NW board of directors to adjourn or postpone the FirstBank NW annual meeting, if necessary. Although three directors will be elected for three-year terms and one director for a one year term, these terms will expire if and when the merger is completed. Also, Moss Adams LLP will no longer serve as FirstBank NW s independent auditors if and when the merger is completed.

Q4: Who is entitled to vote at the FirstBank NW annual meeting?

A4: FirstBank NW shareholders of record at the close of business on [l], 2006, the record date for the FirstBank NW annual meeting, are entitled to receive notice of and to vote on matters that come before the annual meeting and any adjournments or postponements of the annual meeting. However, a FirstBank NW shareholder may only vote his or her shares if he or she is present in person or is represented by proxy at the FirstBank NW annual meeting.

Q5: How do I vote?

A5: After carefully reading and considering the information contained in this document, please fill out, sign and date the proxy card, and then mail your signed proxy card in the enclosed envelope as soon as possible so that your shares may be voted at the annual meeting. If you hold your shares in street name with a bank or broker you may also vote by telephone or through the internet. FirstBank NW shareholders may also attend the

FirstBank NW annual meeting and vote in person. Even if you are planning to attend the annual meeting, we request that you fill out, sign and return your proxy card. For more detailed information, please see the section entitled The Annual Meeting of FirstBank NW Shareholders beginning on page 29.

Q6: How many votes do I have?

A6: Each share of FirstBank NW common stock that you own as of the record date entitles you to one vote. As of the close of business on [l], 2006, there were [l] outstanding shares of

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FirstBank NW common stock. As of that date, [l]% of the outstanding shares of FirstBank NW common stock was held by directors and executive officers of FirstBank NW and their respective affiliates.

Q7: What constitutes a quorum at the FirstBank NW annual meeting?

A7: The presence of the holders of a majority of the shares entitled to vote at the FirstBank NW annual meeting constitutes a quorum. Presence may be in person or by proxy. You will be considered part of the quorum if you return a signed and dated proxy card, or if you vote in person at the annual meeting.

Q8: Why is my vote important?

A8: If you do not vote by proxy or in person at the annual meeting, it will be more difficult for FirstBank NW to obtain the necessary quorum to hold its annual meeting. In addition, if you fail to vote, by proxy or in person, it will have the same effect as a vote against approval of the merger agreement. The merger agreement must be adopted by the holders of a majority of the outstanding shares of FirstBank NW common stock entitled to vote at the FirstBank NW annual meeting. If you are the record holder of your shares (meaning a stock certificate has been issued in your name and/or your name appears on FirstBank NW s stock ledger) and you respond but do not indicate how you want to vote, your proxy will be counted as a vote in favor of approval of the merger agreement, as well as a vote in favor of the election of the director nominees named in this proxy statement/prospectus and the ratification of appointment of the auditors and any proposal by the FirstBank NW board of directors to adjourn or postpone the annual meeting, if necessary. If your shares are held in street name with a broker, your broker will vote your shares on the merger agreement proposal *only* if you provide instructions to it on how to vote. Shares that are not voted because you do not properly instruct your broker will have the effect of votes against approval of the merger agreement and any proposal by the FirstBank NW board of directors to adjourn or postpone the annual meeting. Your broker will, however, be able to vote your shares in its discretion on the election of directors and ratification of appointment of the auditors if you fail to provide voting instructions on these items.

If you respond and abstain from voting, your abstention will have the same effect as a vote against approval of the merger agreement against the ratification of the appointment of auditors and against any proposal by the FirstBank NW board of directors to adjourn or postpone the annual meeting, if necessary. Votes withheld on the election of directors will have no effect on the outcome of this matter.

Q9: What is the recommendation of the FirstBank NW board of directors?

A9: The FirstBank NW board of directors unanimously recommends a vote, FOR election of the directors, FOR ratification of the appointment of the independent auditors and FOR approval of the merger agreement.

Q10: Has FirstBank NW obtained a fairness opinion with respect to the merger?

A10: Yes. FirstBank NW retained the services of RP® Financial, LC., or RP Financial, financial services industry consultants. RP Financial delivered its opinion dated June 4, 2006, to the board of directors of FirstBank NW that, subject to certain assumptions, limitations and qualifications stated therein, the consideration to be received by FirstBank NW shareholders was fair to FirstBank NW shareholders from a financial point of view. RP Financial reconfirmed its fairness opinion as of [l]. RP Financial will receive a standard fee, plus expenses, in connection with its issuance of the fairness opinion. See The Merger Opinion of FirstBank NW s Financial Advisor.

Q11: What if I return my proxy but do not mark it to show how I am voting?

A11: If your proxy card is signed and returned without specifying your choice, your shares will be voted according to the recommendation of the FirstBank NW board of directors.

Q12: Can I change my vote after I have mailed my signed proxy card?

A12: Yes. You can change your vote by revoking your proxy at any time before it is exercised at the FirstBank NW annual meeting. You can revoke your proxy in one of three ways:

notify FirstBank NW s corporate secretary in writing before the annual meeting that you are revoking your proxy,

submit another proxy with a later date prior to the annual meeting, or

vote in person at the annual meeting.

Q13: What regulatory approvals are required to complete the merger?

A13: In order to complete the merger, Sterling must first obtain the prior approval of the Board of Governors of the Federal Reserve System (Federal Reserve Board or FRB). In addition, the acquisition of FirstBank Northwest is subject to the receipt of prior approval from the Federal Deposit Insurance Corporation, or FDIC, and the Washington Department of Financial Institutions, or WDFI. An application with the Federal Reserve Board was filed on or about [l]. An application with the FDIC was filed on or about [l]. An application with the WDFI was filed on or about [l].

Q14: Do I have dissenters or appraisal rights with respect to the merger?

A14: Yes. Under Washington law, you have the right to dissent from the merger. To exercise dissenters rights of appraisal you must strictly follow the procedures prescribed by the Washington Business Corporation Act, or the WBCA. To review these procedures in more detail, see the section entitled Dissenters Rights beginning on page 79, and Appendix C of this proxy statement/prospectus.

Q15: What are the material U.S. federal income tax consequences of the merger to me?

A15: The merger will qualify for U.S. federal income tax purposes as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended, referred to as the Code. As a result, we expect that, for U.S. federal income tax purposes, FirstBank NW shareholders receiving part cash and part Sterling common stock generally will recognize gain, but not loss, equal to the lesser of (i) the excess, if any, of the fair market value of the Sterling common stock and the amount of cash received over the adjusted tax basis in the FirstBank NW common stock exchanged in the merger or (ii) the amount of cash received in the merger.

For further information concerning U.S. federal income tax consequences of the merger, please see the section entitled The Merger Material United States Federal Income Tax Considerations of the Merger beginning on page 51 of this proxy statement/prospectus.

Q16: What risks should I consider before I vote on the merger?

A16: We encourage you to read carefully the detailed information about the merger contained in this document, including the section entitled Risk Factors beginning on page 14.

Q17: When do you expect to complete the merger?

A17: We are working to complete the merger in the fourth quarter of 2006. We must first obtain the necessary regulatory approvals and the approval of FirstBank NW s shareholders at the annual meeting. In the event of delays, the date for completing the merger can occur as late as January 31, 2007, after which FirstBank NW and Sterling would need to mutually agree to extend the closing date of the merger. We cannot assure you as to if and when all the conditions to the merger will be met nor can we predict the exact timing. It is possible we will not complete the merger.

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Q18: Whom should I contact with questions or to obtain additional copies of this document?

A18: Sterling Financial Corporation
111 North Wall Street
Spokane, Washington 99201
Attn: Investor Relations
(509) 227-5389

FirstBank NW Corp.
1300 16th Avenue
Clarkston, Washington 99403
Attn: Investor Relations
(509) 295-5100

SUMMARY

This summary highlights selected information about the merger but may not contain all of the information that may be important to you. You should carefully read this entire document and the other documents to which this document refers for a more complete understanding of the matters being considered at the annual meeting. See the section entitled Where You Can Find More Information beginning on page 94. In addition this proxy statement/prospectus is accompanied by a copy of FirstBank NW s 2006 Annual Report. Unless we have stated otherwise, all references in this document to Sterling are to Sterling Financial Corporation, all references to FirstBank NW are to FirstBank NW Corp., and all references to the merger agreement are to the Agreement and Plan of Merger, dated as of June 4, 2006, between Sterling and FirstBank NW, a copy of which is attached as Appendix A to this document. In this document, we often refer to the combined company, which means, following the merger, Sterling and its subsidiaries, including FirstBank NW s subsidiaries. References to we, us and our in this document mean Sterling and FirstBank NW together.

The Companies

Sterling Financial Corporation
111 North Wall Street
Spokane, Washington 99201
Attn: Investor Relations
(509) 227-5389

Sterling is a Washington corporation registered as a bank holding company under the Bank Holding Company Act of 1956. Sterling is headquartered in Spokane, Washington. Sterling s principal business is to serve as a holding company for Sterling Savings Bank, a Washington State-chartered bank with branches in Washington, Oregon, Idaho and Montana, and Golf Savings Bank, a Washington State-chartered savings bank acquired by Sterling in July 2006. Golf Savings Bank s main focus is residential mortgage origination of single-family permanent loans and residential construction financing, primarily in the Puget Sound area of Washington State. Sterling Savings Bank originates loans through its branch offices, as well as through residential loan production offices of its subsidiary, Action Mortgage, in the four-state area and Utah, and through commercial real estate lending offices of its subsidiary, INTERVEST-Mortgage Investment Company, which operates in the western region. Sterling Savings Bank also markets fixed income and equity products, mutual funds, fixed and variable annuities and other financial products through service representatives of its subsidiary, Harbor Financial Services, located throughout Sterling Savings Bank s financial service center network. At June 30, 2006, Sterling had total assets of $8.04 billion, net loans receivable of $5.51 billion, deposits of $5.34 billion and shareholders equity of $514.1 million. Sterling Savings Bank was founded in 1983. Sterling trades on the Nasdaq Global Select Market under the symbol of STSA.

FirstBank NW Corp.
1300 16th Avenue
Clarkston, Washington 99403
Attn: Investor Relations
(509) 295-5100

FirstBank NW is a Washington corporation registered as a savings and loan holding company with the Office of Thrift Supervision under the Home Owners Loan Act of 1933. FirstBank NW is headquartered in Clarkston, Washington. FirstBank NW was formed in 1997. Its principal business is to serve as a holding company for FirstBank Northwest. As of June 30, 2006, FirstBank NW had total assets of $883.5 million, net loans receivable of $662.6 million, deposits of $637.2 million and shareholders equity of $79.9 million.

FirstBank Northwest is a Washington State-chartered stock savings bank. As a community-oriented financial institution, operating in one business segment, FirstBank Northwest engages primarily in the business of attracting deposits from the general public and using those funds to originate residential mortgages, and commercial and agricultural real estate loans within its market area of northern Idaho, eastern Washington and eastern Oregon, as well as Ada and Canyon Counties in Idaho. FirstBank Northwest is also active in originating construction, consumer and other non-real estate loans. FirstBank Northwest s administrative offices are located in Clarkston, Washington.

The Merger (Page 33)

We propose a merger in which FirstBank NW will merge with and into Sterling and FirstBank Northwest will merge with and into Sterling Savings Bank. As a result of the merger, FirstBank NW will cease to exist as a separate corporation and FirstBank Northwest will cease to exist as a separate financial institution. After the merger, FirstBank Northwest s special purpose subsidiaries, Tri Star Financial Corporation and Pioneer Development Corp., will become wholly owned subsidiaries of Sterling Savings Bank.

Immediately after the merger, based on shares of Sterling common stock outstanding as of June 30, 2006, former FirstBank NW shareholders are expected to own approximately 13.5% of the outstanding shares of Sterling common stock as a result of the issuance of shares of Sterling common stock to the former FirstBank NW shareholders. We expect the merger of FirstBank NW and Sterling to be completed during the fourth quarter of 2006, although the merger could be delayed to as late as January 31, 2007, after which FirstBank NW and Sterling would need to mutually agree to extend the closing date of the merger.

After careful consideration, the FirstBank NW board of directors unanimously approved and adopted the merger agreement. The FirstBank NW board of directors unanimously recommends that holders of FirstBank NW common stock vote FOR approval of the merger agreement.

Under the terms of the merger agreement, its approval requires the affirmative vote, in person or by proxy, of a majority of the outstanding shares of FirstBank NW common stock. No vote of Sterling shareholders is required (or will be sought) in connection with the merger. See the section entitled The Merger Agreement Voting Agreements.

Recommendation of the FirstBank NW board of directors and reasons of FirstBank NW for the merger (Page 42)

The FirstBank NW board of directors believes the merger is in the best interests of FirstBank NW and the FirstBank NW shareholders. The FirstBank NW board of directors unanimously recommends that FirstBank NW shareholders vote FOR the approval of the merger agreement and the consummation of the transactions contemplated by the merger agreement. In approving and adopting the merger agreement and making its recommendation, the FirstBank NW board of directors consulted with FirstBank NW senior management and FirstBank NW s financial and legal advisors and considered a number of strategic, financial and other considerations referred to under the section entitled The Merger Recommendation of the FirstBank NW Board of Directors and Reasons of FirstBank NW for the Merger.

FirstBank NW s financial advisor has said that the merger consideration is fair from a financial point of view to FirstBank NW shareholders (Page 44)

In connection with the proposed merger, FirstBank NW s financial advisor, RP Financial, has delivered an opinion with respect to the fairness of the consideration to be received by the holders of FirstBank NW common stock in the merger. RP Financial rendered its opinion that the consideration to be received by holders of FirstBank NW common stock in accordance with the merger agreement was fair from a financial point of view to holders of FirstBank NW common stock. The full text of the written opinion of RP Financial is attached as Appendix B to this document. You are urged to read the opinion carefully and in its entirety for a description of the procedures followed, matters considered and limitations on the review undertaken. The opinion does not constitute a recommendation to any shareholder as to how they should vote or act on any matter relating to the merger.

Consideration to be received in the merger (Page 50)

At the effective time, by virtue of the merger and without any action on your part, each share of FirstBank NW common stock that is issued and outstanding immediately prior to the effective time will be converted into the right to receive 0.7890 shares of Sterling common stock and $2.55 of cash consideration. Because the market price of Sterling common stock is subject to fluctuation, the value of the shares of Sterling common stock that you may receive in the merger may increase or decrease prior to and after the merger. Furthermore, at the effective date of the merger, FirstBank NW options to purchase FirstBank NW common stock held by FirstBank NW employees and directors will be converted into options to purchase Sterling common stock. As of the date of this document, there were outstanding options to purchase an aggregate of 264,256 shares of FirstBank NW common stock at a weighted average exercise price of $8.46 per share. See the section entitled The Merger Interests of Certain Persons in the Merger Stock Options. The shares of Sterling common stock to be received by those persons deemed to be affiliates of FirstBank NW will be subject to certain sale and transfer restrictions. See the section entitled The Merger Agreement Restrictions on Resales by Affiliates. Sterling common stock received by all other FirstBank NW shareholders will be unrestricted, publicly tradable stock.

FirstBank NW shareholders will own approximately 13.5% of the outstanding shares of Sterling common stock after the merger

The maximum number of shares that will be issued by Sterling in the merger has been fixed at 4,991,563. Based on the number of shares of Sterling common stock outstanding as of June 30, 2006, and assuming no adjustment to the fixed number of Sterling shares, FirstBank NW shareholders will collectively own up to approximately 13.5% of the outstanding shares of Sterling common stock after the merger. See the section entitled The Merger Consideration to be Received in the Merger.

Stock price information (Page 27)

Sterling common stock is listed on the Nasdaq Global Select Market under the symbol STSA. FirstBank NW common stock is traded on The Nasdaq Global Market under the symbol FBNW.

The following table sets forth the last reported sale prices per share of Sterling common stock and FirstBank NW common stock and the equivalent price per FirstBank NW share, giving effect to the merger on (i) June 2, 2006, the last trading day preceding public announcement of the signing of the merger agreement and (ii) [l], 2006, the last practicable date prior to the mailing of this proxy statement/prospectus.

	Sterling Common Stock	FirstBank NW Common Stock	Equivalent Price Per FirstBank Share
June 2, 2006	$ 31.19	$ 22.03	$ 27.16
_____, 2006	$	$	$

The equivalent price per share data for FirstBank NW common stock has been determined by (i) multiplying the last reported sale price of a share of Sterling common stock on the date indicated in the table by 0.7890, the number of Sterling shares to be issued in the merger for each outstanding share of FirstBank NW common stock, plus (ii) $2.55, the amount of cash to be paid in the merger for each outstanding share of FirstBank NW common stock. Because the price of Sterling common stock at the time of completion of the merger may be higher or lower than the sale price indicated in the table, the actual equivalent price per FirstBank NW share received by shareholders at the effective time may be more or less than the equivalent price per FirstBank NW share indicated in the table. See the section entitled Risk Factors Our stock price can be volatile.

FirstBank NW s directors and executive officers have interests in the merger that differ from, or are in addition to, your interests in the merger (Page 54)

You should be aware that some of the directors and executive officers of FirstBank NW have interests in the merger that are different from, or are in addition to, the interests of FirstBank NW shareholders. These interests include, but are not limited to, the continued employment of and retention benefits payable to certain executive officers after the merger, severance benefits payable to certain executive officers whose employment is not continued after the merger, and the indemnification of former FirstBank NW officers and directors by Sterling. The FirstBank NW and Sterling boards of directors were aware of these interests and considered them, among other matters, in approving the merger agreement and the transactions contemplated by the merger agreement.

Material United States federal income tax considerations of the merger (Page 51)

The merger will qualify for U.S. Federal income tax purposes as a reorganization within the meaning of Section 368(a) of the Code. As a result, we expect that, for U.S. federal income tax purposes, FirstBank NW shareholders generally will not recognize any of the gain or loss in their FirstBank NW common stock for the shares of Sterling common stock that they receive as a result of the merger but will generally recognize gain, but not loss, equal to the lesser of (i) the excess, if any, of the fair market value of the Sterling common stock and the amount of cash received over the adjusted tax basis in the FirstBank NW common stock exchanged in the merger or (ii) the amount of cash received in the merger. Any gain recognized may be treated as a dividend or capital gain, depending on the shareholder s particular circumstances.

For further information concerning U.S. federal income tax consequences of the merger, please see the section entitled The Merger Material United States Federal Income Tax Considerations of the Merger beginning on page 51 of this proxy statement/prospectus.

Tax matters are very complicated and the consequences of the merger to any particular FirstBank NW shareholder will depend on that shareholder s particular facts and circumstances. FirstBank NW shareholders are urged to consult their own tax advisors to determine their own tax consequences from the merger.

Following the merger, you will be entitled to receive any dividends that Sterling pays on its common stock (Page 27)

After the merger, you will receive dividends, if any, that Sterling pays on its common stock. Sterling paid quarterly cash dividends of $0.055 per share on January 13, 2006, $0.06 per share on April 13, 2006, and $0.065 per share on July 14, 2006.

Accounting treatment (Page 54)

The merger will be accounted for as an acquisition of FirstBank NW by Sterling under the purchase method of accounting in accordance with U.S. generally accepted accounting principles.

In order to complete the merger, we must first obtain certain regulatory approvals (Page 51)

In order to complete the merger, Sterling must first obtain the prior written approval of the Federal Reserve Board under the Bank Holding Company Act. An application for approval of the merger with the Federal Reserve Board was filed on or about [l]. The acquisition of FirstBank Northwest is also subject to the receipt of prior approval from the FDIC and the WDFI. An application with the FDIC was filed on or about [l]. An application with the WDFI was filed on or about [l].

FirstBank NW shareholders have dissenters rights (Page 79)

FirstBank NW shareholders have the right under Washington law to dissent from the merger, obtain an appraisal of the fair value of their FirstBank NW common stock, and receive cash equal to the appraised fair value of their FirstBank NW common stock (without giving effect to the merger) instead of receiving the merger consideration. To exercise dissenters rights, among other things, a FirstBank NW shareholder must (i) provide notice to FirstBank NW that complies with the requirements of Washington law prior to the vote of its shareholders on the transaction of the shareholder s intent to demand payment for the shareholder s shares, and (ii) not vote in favor of the merger agreement. Submitting a properly signed proxy card that is received prior to the vote at the annual meeting (and is not properly revoked) that does not direct how the shares of FirstBank NW common stock represented by proxy are to be voted will constitute a vote in favor of the merger agreement and a waiver of such shareholder s statutory dissenters rights.

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If you dissent from the merger agreement and the conditions outlined above are met, then your shares of FirstBank NW will not be exchanged for a combination of shares of Sterling common stock and cash in the merger, and your only right will be to receive the fair value of your common stock as determined by mutual agreement between you and Sterling or by appraisal if you are unable to agree. The appraised value may be more or less than the consideration you would receive under the terms of the merger agreement, and will be based upon the value of shares of FirstBank NW common stock without giving effect to the merger. If you exercise dissenters rights, any cash you receive for your FirstBank NW shares that results in a gain or loss will be immediately recognizable for federal income tax purposes. You should be aware that submitting a signed proxy card without indicating a vote with respect to the merger will be deemed a vote FOR the merger agreement and a waiver of your dissenters rights. A vote AGAINST the merger agreement does not dispense with the other requirements to exercise dissenters rights under Washington law.

A shareholder electing to dissent from the merger agreement must strictly comply with all procedures required under Washington law. These procedures are described more fully beginning on page 79 of this proxy statement/prospectus, and a copy of the relevant Washington statutory provisions regarding dissenters rights is included as Appendix C to this proxy statement/prospectus.

The merger agreement (Page 60)

The merger agreement is described beginning on page 60. The merger agreement also is attached as Appendix A to this document. We urge you to read the merger agreement in its entirety because it contains important provisions governing the terms and conditions of the merger.

Additional conditions to consummation of the merger (Page 67)

In addition to the regulatory approvals, the consummation of the merger depends on a number of conditions being met, including, among others:

- approval of the merger agreement by the holders of a majority of all outstanding shares of FirstBank NW s common stock;
- authorization of the shares of Sterling common stock to be issued in the merger for quotation on the Nasdaq stock market;
- the filing and effectiveness of a registration statement on Form S-4 with the SEC in connection with the issuance of Sterling common stock in the merger;
- absence of any order, injunction, or regulatory prohibition to completion of the merger;
- receipt by each party of an opinion from such party s tax counsel that the merger will qualify as a tax-free reorganization;
- accuracy of the representations and warranties of FirstBank NW and Sterling, except those that would not have or be reasonably likely to have a material adverse effect on FirstBank NW or Sterling;
- performance in all material respects by FirstBank NW and Sterling of all obligations required to be performed by either of them under the merger agreement;
- Sterling s receipt, and the continued effectiveness, of voting agreements from certain FirstBank NW shareholders, including Messrs. Acuff, Conklin, Cox, Durgan, Gentry, Jurgens, Marker, Moxley, Otte, Powell,

Reuling, Young and Zenner; and

receipt by Sterling of resignations from each director of FirstBank NW and each of its subsidiaries.

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Where the law permits, either Sterling or FirstBank NW could elect to waive a condition to its obligation to complete the merger although that condition has not been satisfied. We cannot be certain when (or if) the conditions to the merger will be satisfied or waived or that the merger will be completed.

In addition, after FirstBank NW s shareholders have adopted the merger agreement, we may not amend the merger agreement to reduce the amount or change the form of consideration to be received by the FirstBank NW shareholders in the merger without the approval of FirstBank NW shareholders as required by law.

We may decide not to complete the merger (Page 69)

FirstBank NW and Sterling, by mutual consent, can agree at any time not to complete the merger, even if the shareholders of FirstBank NW have voted to approve the merger agreement. Also, either party can decide, without the consent of the other, not to complete the merger in a number of other situations, including:

if any governmental entity that must grant a required regulatory approval has denied such approval and such denial has become final and nonappealable;

if any governmental entity of competent jurisdiction has issued a final nonappealable order enjoining or otherwise prohibiting the consummation of the transactions contemplated by the merger agreement, unless the denial or order is due to the failure of the party seeking to terminate the merger agreement to perform or observe the covenants and agreements of that party set forth in the merger agreement;

failure to complete the merger by January 31, 2007, unless the failure of the closing to occur by that date is due to the material breach by the party seeking to terminate the merger agreement to perform or observe the covenants or obligations of that party;

if the other party has materially breached any of the covenants, agreements, representations or warranties contained in the merger agreement, and the party seeking to terminate is not then in material breach of any representation, warranty, covenant or other agreement contained in the merger agreement, and the breach is not cured within 30 days following written notice to the party committing the breach, or which breach, by its nature, cannot be cured prior to the closing date; and

if the approval of the shareholders of FirstBank NW contemplated by the merger agreement is not obtained by reason of the failure to obtain the vote required at the FirstBank NW annual meeting, unless the failure was caused by FirstBank NW or a party to a voting agreement entered into in connection with the merger agreement.

Sterling, without the consent of FirstBank NW, can terminate:

if the board of directors of FirstBank NW fails to recommend to its shareholders the approval of the merger, or changes, or publicly announces its intention to change its recommendation; or

if a tender offer or exchange offer for 25% or more of the outstanding shares of FirstBank NW common stock is commenced (other than by Sterling or a subsidiary thereof), and the board of directors of FirstBank NW recommends that the shareholders of FirstBank NW tender their shares in the tender or exchange offer or otherwise fails to recommend that such shareholders reject the tender offer or exchange offer within a ten-business day period.

FirstBank NW, without the consent of Sterling, can terminate:

if the average closing price of Sterling s common stock during a specified period just prior to the closing date is less than $25.95 and the Sterling common stock price has also declined from a price of $30.53 per share such that the percentage decline of the Sterling common stock price from $30.53 reflects underperformance of Sterling s common stock by at least 15% relative to the price performance of a weighted average index of a certain group of financial institution holding companies. Sterling, however, would then have the option to avoid the termination by increasing the consideration paid to FirstBank NW shareholders, as provided in the merger agreement.

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Under some circumstances, either FirstBank NW or Sterling will be required to pay a termination fee to the other if the merger agreement is terminated (Page 70)

FirstBank NW must pay Sterling a termination fee of $6.35 million if Sterling terminates the merger agreement and elects to receive the fee as a result of: (i) the FirstBank NW board of directors failing to recommend the approval of the merger or changing or publicly announcing its intention to change its recommendation and the FirstBank NW shareholders failing to approve the merger; (ii) FirstBank NW breaching its nonsolicitation or related obligations as provided in the merger agreement; or (iii) the board of directors recommending that FirstBank NW shareholders tender their shares in a tender or exchange offer or failing to recommend that the FirstBank NW shareholders reject such an offer.

FirstBank NW must pay Sterling a termination fee of $1.75 million (which amount may be increased to $6.35 million in certain circumstances) if Sterling terminates the merger agreement and elects to receive the fee as a result of the willful or intentional material breach by FirstBank NW of any of the covenants and agreements or representations or warranties it made in the merger agreement, such that any of its closing conditions would not be satisfied by the closing date, and the breach is not cured within 30 days following written notice to FirstBank NW, or which breach, by its nature, cannot be cured prior to the closing date; and

Sterling must pay FirstBank NW a termination fee of $1.75 million if FirstBank NW terminates the merger agreement and elects to receive the fee as a result of the willful or intentional material breach by Sterling of any of the covenants and agreements or representations or warranties it made in the merger agreement, such that any of its closing conditions would not be satisfied by the closing date, and the breach is not cured within 30 days following written notice to Sterling, or which breach, by its nature, cannot be cured prior to the closing date.

Comparison of Shareholder Rights (Page 74)

The conversion of your shares of FirstBank NW common stock into the right to receive shares of Sterling common stock in the merger will result in differences between your rights as a FirstBank NW shareholder, which are governed by the WBCA and FirstBank NW s amended articles of incorporation and amended bylaws, and your rights as a Sterling shareholder, which are governed by the WBCA and Sterling s amended and restated articles of incorporation and bylaws.

The Annual Meeting (page 29)

Meeting Information and Vote Requirements

The annual meeting of FirstBank NW s shareholders will be held on [l], 2006, at 2:00 p.m., local time, at the Quality Inn, located at 700 Port Drive, Clarkston, Washington, unless adjourned or postponed. At this meeting, FirstBank NW s shareholders will be asked to:

1. elect three directors for three-year terms and one director for a one-year term;

2. ratify the appointment of Moss Adams LLP as FirstBank NW s independent auditors for the fiscal year ending March 31, 2007;

3. approve the merger agreement; and

4. vote on any proposal of the FirstBank NW board of directors to adjourn or postpone the FirstBank NW annual meeting, if necessary.

Shareholders will also be asked to act on any other business that may be properly submitted to a vote at the annual meeting or any adjournments or postponements of the annual meeting.

You may vote at the annual meeting if you owned FirstBank NW common stock as of the close of business on [l], 2006. You may cast one vote for each share of FirstBank NW common stock you owned at that time.

Approval of the merger agreement requires the affirmative vote of the holders of a majority of the outstanding shares of FirstBank NW common stock. Directors will be elected by a plurality of the votes cast and ratification of the appointment of the independent auditors requires the affirmative vote of a majority of the outstanding shares of common stock present in person or by proxy and entitled to vote at the annual meeting.

The affirmative vote of the holders of a majority of the outstanding shares of FirstBank NW common stock present in person or by proxy and voting on the matter may authorize the adjournment or postponement of the annual meeting, if necessary, for the purpose of soliciting additional proxies, whether or not a quorum is present. No proxy that is voted against the approval of the merger agreement will be voted in favor of adjournment or postponement to solicit further proxies for that proposal.

RISK FACTORS

By voting in favor of the merger, you will be choosing to invest in the common stock of Sterling and FirstBank NW as a combined company to the extent you receive Sterling common stock in exchange for your shares of FirstBank NW common stock. An investment in the combined company s common stock contains a high degree of risk. In addition to the other information included in this proxy statement/prospectus, including the matters addressed in the section entitled Cautionary Statement Regarding Forward-Looking Statements on page 22, you should carefully consider the matters described below in determining whether to approve the principal terms of the merger agreement.

Risks Related to the Merger

Because the market price of Sterling common stock will fluctuate, FirstBank NW shareholders cannot be sure of the value of the merger consideration they will receive.

Upon completion of the merger, each share of FirstBank NW common stock will be converted into the right to receive merger consideration equal to 0.7890 shares of Sterling common stock and $2.55 in cash pursuant to the terms of the merger agreement. Any change in the market price of Sterling common stock prior to completion of the merger will affect the value of the merger consideration that FirstBank NW shareholders will receive upon completion of the merger. Accordingly, at the time of the FirstBank NW annual meeting and prior to the closing of the merger, FirstBank NW shareholders will not necessarily know or be able to calculate the actual value of the merger consideration they would receive upon completion of the merger. Although FirstBank NW will have the right to terminate the merger agreement in the event of a specified decline in the market value of Sterling common stock and a specified decline relative to the performance of a designated market index unless Sterling elects to increase the aggregate merger consideration (see The Merger Agreement Termination of the Merger Agreement), neither company is otherwise permitted to terminate the merger agreement or resolicit the vote of FirstBank NW s shareholders solely because of changes in the market prices of either company s stock. Stock price changes may result from a variety of factors, including general market and economic conditions, changes in our respective businesses, operations and prospects, and regulatory considerations. Many of these factors are beyond the control of our companies. You should obtain current market prices for shares of Sterling common stock and for shares of FirstBank NW common stock.

If Sterling is unable to integrate the combined operations successfully, its business and earnings may be negatively affected.

The merger involves the integration of companies that have previously operated independently. Successful integration of FirstBank NW s operations will depend primarily on Sterling s ability to consolidate operations, systems and procedures and to eliminate redundancies and costs. No assurance can be given that Sterling will be able to integrate its post-merger operations without encountering difficulties including, without limitation, the loss of key employees and customers, the disruption of its respective ongoing businesses or possible inconsistencies in standards, controls, procedures and policies. Estimated cost savings and revenue enhancements are projected to come from various areas that Sterling s management has identified through the due diligence and integration planning process. The elimination and consolidation of duplicate tasks are projected to result in annual cost savings. If Sterling has difficulties with the integration, it might not fully achieve the economic benefits it expects to result from the merger. In addition, Sterling may experience greater than expected costs or difficulties relating to the integration of the business of FirstBank NW, and/or may not realize expected cost savings from the merger within the expected time frame. The fairness opinion obtained by FirstBank NW from its financial advisor will not reflect changes in circumstances between approval of the merger agreement and the time the merger is completed.

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The fairness opinion obtained by FirstBank NW from its financial advisor will not reflect changes in circumstances between the date of this proxy statement/prospectus and the completion of the merger.

Changes in the operations and prospects of Sterling or FirstBank NW s general market and economic conditions, and other factors that may be beyond the control of Sterling and FirstBank NW and on which the fairness opinion was based, may alter the value of Sterling or FirstBank NW or the prices of shares of Sterling common stock or FirstBank NW common stock by the time the merger is completed. The opinion does not speak as of the time the merger will be completed or as of any date other than the dates of such opinion. Because FirstBank NW does not currently anticipate asking its financial advisor to update its opinion, the September [ ], 2006 opinion does not address the fairness of the merger consideration, from a financial point of view, at the time the merger is completed. For a description of the opinion that FirstBank NW received from its financial advisor, please refer to The Merger Opinion of FirstBank NW s Financial Advisor. For a description of the other factors considered by the board of directors of FirstBank NW in determining to approve the merger, please refer to The Merger Recommendation of the FirstBank NW Board of Directors and Reasons for the Merger.

The merger agreement limits FirstBank NW s ability to pursue alternatives to the merger.

The merger agreement contains non-solicitation provisions that, subject to limited exceptions, limit FirstBank NW s ability to discuss, facilitate or commit to competing third-party proposals to acquire all or a significant part of FirstBank NW. Although FirstBank NW s board of directors is permitted to take certain actions in connection with the receipt of a competing acquisition proposal if it determines in good faith that the failure to do so would violate its fiduciary duties, taking such actions could, and other actions (such as withdrawing or modifying its recommendation to FirstBank NW shareholders that they vote in favor of approval of the merger agreement) would, entitle Sterling to terminate the merger agreement and receive a termination fee of $6.35 million. See The Merger Termination of the Merger Agreement and Termination Fee. These provisions might discourage a potential competing acquiror that might have an interest in acquiring all or a significant part of FirstBank NW from considering or proposing that acquisition even if it were prepared to pay consideration with a higher per share price than that proposed in the merger, or might result in a potential competing acquiror proposing to pay a lower per share price to acquire FirstBank NW than it might otherwise have proposed to pay.

FirstBank NW s directors and executive officers might have additional interests in the merger.

In deciding how to vote on the proposal to approve the merger agreement, you should be aware that FirstBank NW s directors and executive officers might have interests in the merger that are different from, or in addition to, the interests of FirstBank NW shareholders generally. See the section entitled The Merger Interests of Certain Persons in the Merger. FirstBank NW s board of directors was aware of these interests and considered them when it recommended approval of the merger agreement.

The merger is subject to the receipt of consents and approvals from regulatory and other authorities that may impose conditions that could have an adverse effect on Sterling.

Before the merger may be completed, various approvals or consents must be obtained from various bank regulatory and other authorities. These authorities may impose conditions on the completion of the merger or require changes to the terms of the merger. While Sterling and FirstBank NW do not currently expect that any such conditions or changes would be imposed, there can be no assurance that they will not be, and such conditions or changes could have the effect of delaying completion of the merger or imposing additional costs on or limiting the revenues of Sterling following the merger, any of which might have a material adverse effect on Sterling following the merger.

Risks Related to Sterling Following Completion of the Merger

Unless otherwise specified, references to we, our and us in this subsection means Sterling and its subsidiaries on a consolidated basis.

As a bank holding company, our earnings are dependent upon the performance of our bank and non-bank subsidiaries as well as by business, economic and political conditions.

Sterling is a legal entity separate and distinct from its subsidiaries, including Sterling Savings Bank and Golf Savings Bank, although the principal source of Sterling s cash is dividends from Sterling Savings Bank and Golf Savings Bank. Our right to participate in the assets of any subsidiary upon that subsidiary s liquidation, reorganization or otherwise will be subject to the claims of the subsidiary s creditors, which will take priority except to the extent that we may be a creditor with a recognized claim.

Sterling Savings Bank and Golf Savings Bank are also subject to restrictions under federal law that limit the transfer of funds to us or to other affiliates, whether in the form of loans, extensions of credit, investments, asset purchases or otherwise. Such transfers by Sterling Savings Bank or Golf Savings Bank to us or any other affiliate are limited in amount to 10% of each bank s capital and surplus. Furthermore, such loans and extensions of credit are required to be collateralized.

Earnings are impacted by business and economic conditions in the United States and abroad. These conditions include short-term and long-term interest rates, inflation, monetary supply, fluctuations in both debt and equity capital markets, and the strength of the U.S. economy and the local economies in which we operate. Business and economic conditions that negatively impact household or corporate incomes could decrease the demand for our products and increase the number of customers who fail to pay their loans.

A downturn in the local economies or real estate markets could negatively impact our banking business.

A downturn in the local economies or real estate markets could negatively impact our banking business. Because we primarily serve individuals and businesses located in the Pacific Northwest, a significant portion of our total loan portfolio is originated in the Pacific Northwest or secured by Pacific Northwest real estate or other assets. As a result of this geographic concentration, the ability of customers to repay their loans, and consequently our results, are impacted by the economic and business conditions in the Pacific Northwest, in particular in the metropolitan areas of Seattle, Washington, Portland, Oregon and Boise, Idaho. Any adverse economic or business developments or natural disasters in these areas could cause uninsured damage and other loss of value to real estate that secures our loans or could negatively affect the ability of borrowers to make payments of principal and interest on the underlying loans. In the event of such adverse development or natural disaster, our results of operations or financial condition could be adversely affected.

Furthermore, current uncertain geopolitical trends and negative economic trends, including uncertainty regarding economic growth and increased unemployment, may negatively impact businesses in our markets. While the short-term and long-term effects of these events remain uncertain, they could adversely affect general economic conditions, consumer confidence, market liquidity or result in changes in interest rates, any of which could have a negative impact on banking business.

We have shifted our focus to community banking.

We are increasing our business banking, consumer and construction lending, while placing an increased emphasis on attracting greater volumes of retail deposits. Business banking, consumer and construction loans generally produce higher yields than residential mortgage loans. Such loans, however, generally involve a higher degree of risk than the financing of residential real estate, primarily because the collateral may be difficult to obtain or liquidate in the event of default. Construction lending is subject to risks such as construction delays, cost overruns, insufficient collateral and the inability to obtain permanent financing in a timely manner. Business banking and construction loans are more expensive to originate than residential mortgage loans. As a result, our operating expenses are likely to increase as we increase our lending in these areas. Additionally, we are likely to experience higher levels of loan losses than we would on residential mortgage loans. There can be no assurance that our emphasis on community banking will be successful or that any increase in the yields on business banking, consumer and construction loans will offset higher levels of expense and losses on such loans.

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Our loan originations are highly concentrated in certain types of loans.

Our loans, with limited exceptions, are secured by either real estate, marketable securities or corporate assets. A significant portion of our loans are residential construction loans. At June 30, 2006, approximately 26% of Sterling Savings Bank s total loan portfolio consisted of construction loans, approximately 23% of which were for speculative endeavors. Additionally, 19% of Sterling Savings Bank s loan portfolio consisted of multifamily residential and commercial property loans at June 30, 2006. A reduction in the demand for new construction or multifamily residential and commercial property loans could have a negative impact on Sterling Savings Bank. In addition, 17% of the loans in FirstBank NW s portfolio as of June 30, 2006 were residential construction loans.

Our ability to continue to originate such loans may be impaired by adverse changes in local and regional economic conditions in the real estate markets, or by acts of nature. Due to the concentration of real estate collateral, these events could have a material adverse impact on the value of the collateral, resulting in losses or delinquencies. Our residential mortgage and home equity loans are primarily secured by residential property in the Pacific Northwest. As a result, conditions in the real estate markets specifically, and the Pacific Northwest economy generally, can materially impact the ability of our borrowers to repay their loans and affect the value of the collateral securing these loans. Customer demand for loans secured by real estate could be reduced by a weaker economy, an increase in unemployment, a decrease in real estate values or an increase in interest rates.

Our earnings are significantly affected by the fiscal and monetary policies of the federal government and the governments of the states in which it operates.

The Federal Reserve Board regulates the supply of money and credit in the United States. Its policies determine in large part our cost of funds for lending and investing and the return we earn on those loans and investments, both of which impact net interest margin, and can materially affect the value of financial instruments such as debt securities and mortgage servicing rights. Its policies also can affect our borrowers, potentially increasing the risk that they may fail to repay their loans. Changes in Federal Reserve Board policies are beyond our control and hard to predict or anticipate.

The amount of income taxes that we are required to pay on our earnings is based on federal and state legislation and regulations. We provide for current and deferred taxes in our financial statements, based on our results of operations, business activity, legal structure and interpretation of tax statutes. We may take filing positions or follow tax strategies that may be subject to challenge. Our net income and earnings per share may be reduced if a federal, state, or local authority assessed charges for taxes that have not been provided for in our consolidated financial statements. There can be no assurance that we will achieve our effective tax rate or that taxing authorities will not change tax legislation, challenge filing positions, or assess taxes and interest charges.

Changes in market interest rates could adversely affect our earnings.

Our earnings are impacted by changing market interest rates. Changes in market interest rates impact the level of loans, deposits and investments, the credit profile of existing loans and the rates received on loans and investment securities and the rates paid on deposits and borrowings. One of our primary sources of income from operations is net interest income, which is equal to the difference between the interest income received on interest-earning assets (usually, loans and investment securities) and the interest expense incurred in connection with interest-bearing liabilities (usually, deposits and borrowings). These rates are highly sensitive to many factors beyond our control, including general economic conditions, both domestic and foreign, and the monetary and fiscal policies of various governmental and regulatory authorities. Net interest income can be affected significantly by changes in market interest rates. Changes in relative interest rates may reduce net interest income as the difference between interest income and interest expenses decreases.

Interest rates are currently rising, and if interest rates continue to rise, the amount of interest we pay on deposits and borrowings could increase more quickly than the amount of interest we receive on our loans, mortgage-related securities and investment securities. This could cause our profits to decrease. Rising interest

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rates would likely reduce the value of our mortgage-related securities and investment securities and may decrease demand for loans and make it more difficult for borrowers to repay their loans. Increasing market interest rates may also depress property values, which could affect the value of collateral securing our loans.

An increase in interest rates could also have a negative impact on our results of operations by reducing the ability of borrowers to repay their current loan obligations. These circumstances could not only result in increased loan defaults, foreclosures and write-offs, but also necessitate further increases to the allowances for loan losses. In addition, fluctuations in interest rates may result in disintermediation, which is the flow of funds away from depository institutions into direct investments that pay a higher rate of return and may affect the value of our investment securities and other interest-earning assets.

Our cost of funds may increase as a result of general economic conditions, interest rates or competitive pressures.

Our cost of funds may increase because of general economic conditions, unfavorable conditions in the capital markets, interest rates and competitive pressures. We have traditionally obtained funds principally through deposits and borrowings. As a general matter, deposits are a cheaper source of funds than borrowings, because interest rates paid for deposits are typically less than interest rates charged for borrowings. If, as a result of general economic conditions, market interest rates, competitive pressures, or other factors, our level of deposits decreases relative to our overall banking operation, we may have to rely more heavily on borrowings as a source of funds in the future, which may negatively impact net interest margin.

Competition may adversely affect our ability to attract and retain customers at current levels.

The banking and financial services businesses in our market areas are highly competitive. Competition in the banking, mortgage and finance industries may limit our ability to attract and retain customers. We face competition from other banking institutions, savings banks, credit unions and other financial institutions. We also compete with non-bank financial service companies within the states that we serve and out-of-state financial intermediaries that have opened loan production offices or that solicit deposits in our market areas. There also has been a general consolidation of financial institutions in recent years, which results in new competitors and larger competitors in our market areas.

In particular, our competitors include major financial companies whose greater resources may provide them a marketplace advantage. Areas of competition include interest rates for loans and deposits, efforts to obtain deposits and the range and quality of services provided. Because we have fewer financial and other resources than larger institutions with which we compete, we may be limited in our ability to attract customers. In addition, some of the current commercial banking customers may seek alternative banking sources as they develop needs for credit facilities larger than we can accommodate. If we are unable to attract and retain customers, we may be unable to continue our loan and deposit growth, and our results of operations and financial condition may otherwise be negatively impacted.

We may not be able to successfully implement our internal growth strategy.

We have pursued and intend to continue to pursue an internal growth strategy, the success of which will depend primarily on generating an increasing level of loans and deposits at acceptable risk levels and terms without proportionate increases in non-interest expenses. There can be no assurance that we will be successful in implementing our internal growth strategy. Furthermore, the success of our growth strategy will depend on maintaining sufficient regulatory capital levels and on continued favorable economic conditions in the Pacific Northwest.

There are risks associated with potential acquisitions.

We may make opportunistic acquisitions of other banks or financial institutions from time to time that further our business strategy. These acquisitions could involve numerous risks including lower than expected performance or higher than expected costs, difficulties in the integration of operations, services, products and personnel, the diversion of management s attention from other business concerns, changes in relationships with

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customers and the potential loss of key employees. Any acquisitions will be subject to regulatory approval, and there can be no assurance that we will be able to obtain such approvals. We may not be successful in identifying further acquisition candidates, integrating acquired institutions or preventing deposit erosion or loan quality deterioration at acquired institutions. Competition for acquisitions in our market area is highly competitive, and we may not be able to acquire other institutions on attractive terms. There can be no assurance that we will be successful in completing future acquisitions, or if such transactions are completed, that we will be successful in integrating acquired businesses into our operations. Our ability to grow may be limited if we are unable to successfully make future acquisitions.

We may not be able to replace key members of management or attract and retain qualified relationship managers in the future.

We depend on the services of existing management to carry out our business and investment strategies. As we expand, we will need to continue to attract and retain additional management and other qualified staff. In particular, because we plan to continue to expand our locations, products and services, we will need to continue to attract and retain qualified banking personnel and investment advisors. Competition for such personnel is significant in our geographic market areas. The loss of the services of any management personnel, or the inability to recruit and retain qualified personnel in the future, could have an adverse effect on our results of operations, financial conditions and prospects.

Defaults may negatively impact our business.

Increased delinquencies or loan defaults by our customers may negatively impact business. A borrower s default on its obligations under one or more loans may result in lost principal and interest income and increased operating expenses as a result of the allocation of management time and resources to the collection and workout of the loan.

If collection efforts are unsuccessful or acceptable workout arrangements cannot be reached, we may have to charge-off all or a part of the loan. In such situations, we may acquire any real estate or other assets, if any, that secure the loan through foreclosure or other similar available remedies. The amount owed under the defaulted loan may exceed the value of the assets acquired.

Our allowance for loan losses may be inadequate.

Our loan customers may not repay their loans according to the terms of the loans, and the collateral securing the payment of these loans may be insufficient to pay any remaining loan balance. We therefore may experience significant loan losses, which could have a material adverse effect on our operating results.

We make various assumptions and judgments about the collectability of our loan portfolio, including the creditworthiness of our borrowers and the value of the real estate and other assets serving as collateral for the repayment of many of our loans. We rely on our loan quality reviews, experience and evaluation of economic conditions, among other factors, in determining the amount of the allowance for loan losses. If our assumptions prove to be incorrect, our allowance for loan losses may not be sufficient to cover losses inherent in the loan portfolio, resulting in additions to our allowance. Increases in this allowance result in an expense for the period in which they are made. If, as a result of general economic conditions or a decrease in asset quality, management determines that additional increases in the allowance for loan losses are necessary, we will incur additional expenses.

Our loans are primarily secured by real estate, including a concentration of properties located in the Pacific Northwest. If an earthquake, volcano eruption or other natural disaster were to occur in one of the major market areas, loan losses could occur that are not incorporated in the existing allowance for loan losses.

We are expanding our lending activities in riskier areas.

We have identified commercial real estate, commercial business and consumer loans as areas for increased lending emphasis. While increased lending diversification is expected to increase interest income,

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non-residential loans carry greater risk of payment default than residential real estate loans. As the volume of these loans increases, credit risk increases. In the event of substantial borrower defaults, our provision for loan losses would increase and therefore earnings would be reduced.

Our operations could be interrupted if our third-party service providers experience difficulty, terminate their services or fail to comply with banking regulations.

We depend, and will continue to depend, to a significant extent, on a number of relationships with third-party service providers. Specifically, we receive core systems processing, essential web hosting and other Internet systems and deposit and other processing services from third-party service providers. If these third-party service providers experience difficulties or terminate their services and we are unable to replace them with other service providers, our operations could be interrupted. If an interruption were to continue for a significant period of time, business, financial condition and results of operations could be materially adversely affected.

Our internal control systems could fail to detect certain events.

We are subject to certain operations risks, including but not limited to data processing system failures and errors and customer or employee fraud. We maintain a system of internal controls to mitigate against such occurrences and maintain insurance coverage for such risks, but should such an event occur that is not prevented or detected by our internal controls, uninsured or in excess of applicable insurance limits, it could have a significant adverse impact on our business, financial condition or results of operations.

The network and computer systems on which we depend could fail or experience a security breach.

Our computer systems could be vulnerable to unforeseen problems. Because we conduct part of our business over the Internet and outsource several critical functions to third parties, operations will depend on the ability, as well as that of third-party service providers, to protect computer systems and network infrastructure against damage from fire, power loss, telecommunications failure, physical break-ins or similar catastrophic events. Any damage or failure that causes interruptions in operations could have a material adverse effect on business, financial condition and results of operations.

In addition, a significant barrier to online financial transactions is the secure transmission of confidential information over public networks. Our Internet banking system relies on encryption and authentication technology to provide the security and authentication necessary to effect secure transmission of confidential information. Advances in computer capabilities, new discoveries in the field of cryptography or other developments could result in a compromise or breach of the algorithms our third-party service providers use to protect customer transaction data. If any such compromise of security were to occur, it could have a material adverse effect on our business, financial condition and results of operations.

We could be held responsible for environmental liabilities of properties acquired through foreclosure.

If we are forced to foreclose on a defaulted mortgage loan to recover our investment, we may be subject to environmental liabilities related to the underlying real property. Hazardous substances or wastes, contaminants, pollutants or sources thereof may be discovered on a property during its ownership or after a sale to a third party. The amount of environmental liability could exceed the value of real property. There can be no assurance that we would not be fully liable for the entire cost of any removal and clean-up on an acquired property, that the cost of removal and clean-up would not exceed the value of the property, or that costs could be recovered from any third party. In addition, we may find it difficult or impossible to sell the property prior to or following any environmental remediation.

Our banking business is highly regulated.

State-chartered banks operate in a highly regulated environment and are subject to supervision and examination by federal and state regulatory agencies. As a Washington State-chartered commercial bank, our subsidiary Sterling Savings Bank is subject to regulation and supervision by the FDIC and the WDFI. As a

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Washington State-chartered savings bank, our subsidiary, Golf Savings Bank, is also subject to regulation and supervision by the FDIC and the WDFI. Federal and state laws and regulations govern numerous matters, including changes in the ownership or control of banks, maintenance of adequate capital and the financial condition of a financial institution, permissible types, amounts, and terms of extensions of credit and investments, maintenance of permissible non-banking activities, maintenance of deposit insurance, protection of financial privacy the level of reserves against deposits, and restrictions on dividend payments.

The FDIC, the Federal Reserve Board and the WDFI possess cease and desist powers to prevent or remedy unsafe or unsound practices or violations of law by banks subject to their regulations. These and other restrictions limit the manner in which we may conduct business and obtain capital or financing.

Our stock price can be volatile.

Our stock price can fluctuate widely in response to a variety of factors, including actual or anticipated variations in quarterly operating results; changes in shareholder dividend policy; recommendations by securities analysts; and news reports relating to trends, concerns and other issues in the financial services industry. Other factors include new technology used or services offered by our competitors; operating and stock price performance of other companies that investors deem comparable to us; and changes in government regulations.

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

No assurance can be given that dividends payable on Sterling common stock, including the stock to be received by FirstBank NW shareholders in the merger, will continue at historical levels, or at all.

Shares eligible for future sale could have a dilutive effect.

Shares of Sterling common stock eligible for future sale, including those that may be issued in the acquisition of FirstBank NW, in future acquisitions and any other offering of Sterling common stock for cash, could have a dilutive effect on the market for Sterling common stock and could adversely affect its market price. For example, on July 25, 2006, Sterling filed a shelf registration statement on Form S-3 that provides for the issuance by Sterling of up to $100 million in Sterling common stock and preferred stock.

As of July 31, 2006, there were 60,000,000 shares of Sterling common stock authorized, of which 36,914,638 shares were outstanding. As a result of the merger, a maximum of 4,991,563 shares of Sterling common stock may be issued to FirstBank NW shareholders.

Future legislation could change our competitive position.

Various legislation, including proposals to change substantially the financial institution regulatory system and to expand or contract the powers of banking institutions and bank holding companies, is introduced in Congress from time to time. This legislation may change banking statutes and our operating environment in substantial and unanticipated ways. If enacted, such legislation could increase or decrease the cost of doing business, limit or expand permissible activities or affect the competitive balance among banks, savings associations, credit unions and other financial institutions. We cannot predict whether any of this potential legislation will be enacted, and if enacted, the effect that it, or any implementing regulations, would have on our financial condition or results of operations.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This document, including information included or incorporated by reference in this document, may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act), and Sterling and FirstBank NW intend for such forward-looking statements to be covered by the safe harbor provisions for forward looking statements contained in the Private Securities Litigation Reform Act of 1995. These forward-looking statements include, but are not limited to, (i) statements about the benefits of the merger, including future financial and operating results, cost savings, enhancements to revenue and accretion to reported earnings that may be realized from the merger; (ii) statements about our respective plans, objectives, expectations and intentions and other statements that are not historical facts; (iii) statements about expectations regarding the timing of the closing of the merger and the ability to obtain regulatory approvals on a timely basis; and (iv) other statements identified by words such as expects, anticipates, intends, plans, believes, seeks, estimates, or words of similar meaning. These forward-looking statements are based on current beliefs and expectations of Sterling s and FirstBank NW s respective management and are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are difficult to predict and beyond Sterling s and FirstBank NW s control. In addition, these forward-looking statements are subject to assumptions with respect to future business strategies and decisions that are subject to change.

The following factors, among others, could cause actual results to differ materially from the anticipated results or other expectations expressed in the forward-looking statements:

our businesses may not be combined successfully, or the combination may take longer to accomplish than expected;

the growth opportunities and cost savings from the merger may not be fully realized or may take longer to realize than expected;

operating costs, customer losses and business disruption following the merger, including adverse effects of relationships with employees, may be greater than expected;

adverse governmental or regulatory policies may be enacted;

the interest rate environment may change, causing margins to compress and adversely affecting net interest income;

the global financial markets may experience increased volatility;

we may experience adverse changes in our credit rating;

we may experience competition from other financial services companies in our markets; and

an economic slowdown may adversely affect credit quality and loan originations.

Additional factors that could cause actual results to differ materially from those expressed in the forward-looking statements are discussed under Risk Factors beginning on page 14 and in Sterling s reports filed with the SEC.

ALL SUBSEQUENT WRITTEN AND ORAL FORWARD-LOOKING STATEMENTS CONCERNING THE PROPOSED TRANSACTION OR OTHER MATTERS ATTRIBUTABLE TO STERLING OR FIRSTBANK NW OR ANY PERSON ACTING ON BEHALF OF STERLING OR FIRSTBANK NW ARE EXPRESSLY QUALIFIED IN THEIR ENTIRETY BY THE CAUTIONARY STATEMENTS ABOVE. NEITHER STERLING NOR FIRSTBANK NW UNDERTAKE ANY OBLIGATION TO UPDATE ANY FORWARD-LOOKING STATEMENTS TO REFLECT CIRCUMSTANCES OR EVENTS THAT OCCUR AFTER THE DATE THE FORWARD-LOOKING STATEMENTS ARE MADE.

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SELECTED CONSOLIDATED FINANCIAL INFORMATION OF STERLING

Sterling is providing the following information to aid you in your analysis of the financial aspects of the merger. Sterling derived the information as of and for the five years ended December 31, 2005 from its historical audited consolidated financial statements for these fiscal years. The audited consolidated financial information contained herein is the same historical information that Sterling has presented in its prior filings with the SEC. The historical consolidated financial data for the six months ended June 30, 2006 and 2005 is derived from unaudited consolidated financial statements. However, in the opinion of management, all adjustments, consisting of normal recurring accruals, necessary for a fair presentation at such dates and for such periods have been made.

The operating results for the six months ended June 30, 2006 are not necessarily indicative of the operating results that may be expected for any future interim period or the year ending December 31, 2006. This information is only a summary, and you should read it in conjunction with Sterling s consolidated financial statements and notes thereto contained in Sterling s 2005 Annual Report on Form 10-K, which has been incorporated by reference into this document. See the section entitled Where You Can Find More Information on page 94. All prior period per share and weighted average share amounts have been restated to reflect the three-for-two stock split that was paid in the form of a 50% stock dividend on August 31, 2005.

	Six Months Ended June 30,		Years Ended December 31,				
	2006	2005	2005	2004	2003	2002	200
	(Dollars in thousands, except per share amounts)						
Statement							
ncome	$ 242,899	$ 187,122	$ 387,811	$ 319,761	$ 214,727	$ 197,313	$ 20
xpense	(122,894)	(80,490)	(171,276)	(122,945)	(89,807)	(96,965)	(11
est income	120,005	106,632	216,535	196,816	124,920	100,348	8
n for losses on	(9,300)	(7,150)	(15,200)	(12,150)	(10,500)	(11,867)	
est income vision for loans	110,705	99,482	201,335	184,666	114,420	88,481	7
rest income	28,047	30,044	59,569	47,799	33,735	29,080	2
nd acquisition	0	0	0	(4,835)	(792)	0	
tion of and core ntangibles	(1,111)	(1,111)	(2,222)	(2,222)	(262)	(644)	
litigation	(220)	(189)	(179)	(141)	(600)	(1,100)	
rest expenses	(89,898)	(79,949)	(167,880)	(141,172)	(92,910)	(79,199)	(6
efore income	47,523	48,277	90,623	84,095	53,591	36,618	2
ax provision	(15,176)	(16,378)	(29,404)	(27,790)	(18,678)	(11,031)	

me	$ 32,347	$ 31,899	$ 61,219	$ 56,305	$ 34,913	$ 25,587	$ 1
per share:							
	$ 0.92	$ 0.92	$ 1.77	$ 1.66	$ 1.45	$ 1.19	$
	0.92	0.91	1.75	1.62	1.42	1.16	
dends per share	$ 0.125	$ 0.000	$ 0.105	$ 0.000	$ 0.000	$ 0.000	$
l average tstanding:							
	35,012,510	34,541,705	34,633,952	33,931,509	23,980,113	21,496,008	19,97
	35,326,837	35,000,243	35,035,029	34,708,794	24,590,172	22,115,723	20,37
l Ratios:							
ue per share	$ 14.65	$ 14.54	$ 14.54	$ 13.65	$ 10.21	$ 9.38	$
n average	0.83%	0.92%	0.87%	0.88%	0.88%	0.80%	
n average ders equity	12.6%	13.5%	12.4%	13.2%	14.4%	13.9%	

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	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005	Years Ended December 31, 2005	2004	2003	2002	2001
	(Dollars in thousands, except per share amounts)						
Shareholders equity to total assets	6.4%	7.5%	6.7%	6.8%	5.9%	5.8%	5.5%
Operating efficiency	61.6%	59.4%	61.7%	60.7%	59.6%	62.5%	69.2%
Net interest margin	3.27%	3.26%	3.28%	3.32%	3.35%	3.37%	3.27%
Nonperforming assets to total assets	0.13%	0.26%	0.11%	0.20%	0.50%	0.59%	0.82%
Statistical Data:							
Number of:							
Employees (full-time equivalent)	1,814	1,707	1,789	1,624	1,121	953	890
Full service branches	142	137	140	135	86	79	77

	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005	Years Ended December 31, 2005	2004	2003	2002	2001
	(Dollars in thousands, except per share amounts)						
Reported net income	$ 32,347	$ 31,899	$ 61,219	$ 56,305	$ 34,913	$ 25,587	$ 16,188
Add back: goodwill amortization net of tax(1)	0	0	0	0	0	0	2,538
Total	$ 32,347	$ 31,899	$ 61,219	$ 56,305	$ 34,913	$ 25,587	$ 18,726
Basic earnings per share:							
Reported net income	$ 0.92	$ 0.92	$ 1.77	$ 1.66	$ 1.45	$ 1.19	$ 0.81
Goodwill amortization	0.00	0.00	0.00	0.00	0.00	0.00	0.13
Adjusted net income	$ 0.92	$ 0.92	$ 1.77	$ 1.66	$ 1.45	$ 1.19	$ 0.94
Diluted earnings per share:							
Reported net income	$ 0.92	$ 0.91	$ 1.75	$ 1.62	$ 1.42	$ 1.16	$ 0.79
Goodwill amortization	0.00	0.00	0.00	0.00	0.00	0.00	0.13
Adjusted net income	$ 0.92	$ 0.91	$ 1.75	$ 1.62	$ 1.42	$ 1.16	$ 0.92

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	June 30,		December 31,				
	2006	2005	2005	2004	2003	2002	2001
	(Dollars in thousands)						
e Sheet Data:							
ssets	$ 8,044,338	$ 6,743,812	$ 7,558,928	$ 6,942,224	$ 4,279,321	$ 3,507,021	$ 3,038
eceivable, net	5,510,188	4,181,265	4,885,916	4,251,877	2,906,426	2,390,422	2,109
ge-backed securities	1,777,380	1,887,441	1,960,582	2,036,920	983,736	743,610	617
nents	197,076	159,271	167,957	167,665	89,448	86,558	76
s	5,337,791	4,200,196	4,806,301	3,863,296	2,455,076	2,014,096	1,853
Seattle advances	1,337,138	1,317,141	1,443,462	1,635,933	1,026,031	874,515	633
e repurchase ents and funds ed	583,041	536,152	611,676	780,012	363,137	249,769	218
orrowings	185,874	111,152	110,688	131,822	137,998	127,682	127
olders equity	514,142	503,487	506,685	469,844	250,348	203,656	165
l Ratios(2):							
o risk-weighted							
;	10.9%	N/A	10.5%	N/A	N/A	N/A	
; Savings Bank	10.5%	11.1%	10.2%	10.7%	10.9%	11.0%	
o risk-weighted							
;	9.8%	N/A	9.5%	N/A	N/A	N/A	
; Savings Bank	9.5%	10.1%	9.2%	9.7%	9.9%	10.0%	
everage (to average							
;	7.9%	N/A	7.4%	N/A	N/A	N/A	
; Savings Bank	7.5%	7.3%	7.2%	6.6%	7.4%	7.6%	

(1) Sterling adopted SFAS No. 142 Goodwill and Intangible Assets on January 1, 2002. The tabular presentation reflects retroactive application of SFAS No. 142, even though SFAS No. 142 by its terms applies prospectively.

(2) Sterling did not have regulatory capital ratio requirements prior to its conversion to a bank holding company.

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SELECTED CONSOLIDATED FINANCIAL INFORMATION OF FIRSTBANK NW

The following selected financial data with respect to FirstBank NW s statements of financial position and its statements of income for the fiscal years ended March 31, 2002 through March 31, 2006 have been derived from its historical audited financial statements for those fiscal years. The audited consolidated financial information contained herein is the same historical information that FirstBank NW has presented in its prior filings with the SEC. The historical consolidated financial data for the three months ended June 30, 2006 and 2005 is derived from unaudited consolidated financial statements. However, in the opinion of management, all adjustments, consisting of normal recurring accruals, necessary for a fair presentation at such dates and for such periods have been made.

The operating results for the three months ended June 30, 2006 are not necessarily indicative of the operating results that may be expected for any interim period or the year ending March 31, 2007. This information is only a summary, and you should read it in conjunction with FirstBank NW s consolidated financial statements and notes thereto contained in FirstBank NW s 2006 Annual Report on Form 10-K, which has been incorporated by reference into this document. See the section entitled Where You Can Find More Information on page 94. FirstBank NW s audited financial statements are also contained in the Annual Report, a copy of which has been furnished to you together with this proxy statement/prospectus. All prior period per share and weighted average share amounts have been adjusted to reflect the two-for-one split paid in the form of a 100% stock dividend on February 9, 2006.