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

Table of Contents

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 o 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.

Table of Contents

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.

Table of Contents

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

TABLE OF CONTENTS

Table of Contents

Table of Contents

Table of Contents

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 [1], 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

Table of Contents

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.

Table of Contents

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.

Table of Contents

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

Table of Contents

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.

4

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.

Table of Contents

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.

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.

Table of Contents

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.

Table of Contents

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.

Table of Contents

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.

Table of Contents

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 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

Table of Contents

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,

Table of Contents

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

Table of Contents

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.

Table of Contents

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.

Table of Contents

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%	

Table of Contents

	Six Months Ended June 30, 2006	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	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

Table of Contents

	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
ments	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.

Table of Contents

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.

	Quarter Ended		Fiscal Year Ended				
	6/30/2006	6/30/2005	3/31/2006	3/31/2005	3/31/2004	3/31/2003	3/31/2002
ome Statement a:							
al interest income	$ 15,084	$ 12,140	$ 52,188	$ 40,631	$ 27,415	$ 20,575	$ 20,24
al interest ense	(6,139)	(4,328)	(19,314)	(13,319)	(9,934)	(8,710)	(9,99
interest income	8,945	7,812	32,874	27,312	17,481	11,865	10,25
vision for loan es	(372)	(868)	(1,799)	(1,528)	(395)	(1,033)	(1,06
interest income r provision for losses	8,573	6,944	31,075	25,784	17,086	10,832	9,19
al noninterest ome	1,664	1,657	6,933	6,010	5,516	4,693	4,01
al noninterest ense	(7,332)	(5,950)	(25,584)	(23,149)	(16,762)	(11,699)	(9,76
ome before ome tax expense	2,905	2,651	12,424	8,645	5,840	3,826	3,44
ome tax expense	(904)	(799)	(3,908)	(2,367)	(1,482)	(1,054)	(1,06
income	$ 2,001	$ 1,852	$ 8,516	$ 6,278	$ 4,358	$ 2,772	$ 2,37

: basic	$	0.34	$	0.32	$	1.45	$	1.08	$	1.13	$	1.08	$	0.8
: diluted		0.33		0.31		1.41		1.05		1.06		1.03		0.8
h dividends paid share	$	0.100	$	0.085	$	0.370	$	0.340	$	0.310	$	0.270	$	0.22
ghted averages es outstanding: c		5,935,585		5,857,710		5,879,598		5,792,614		3,851,608		2,575,934		2,703,41
ghted averages es outstanding: ted		6,096,877		5,981,600		6,020,332		5,995,260		4,111,270		2,682,222		2,801,31
ancial Ratios:														
k value per share	$	13.45	$	12.62	$	13.35	$	12.35	$	12.12	$	11.62	$	10.3
urn on average ts		0.93%		0.90%		1.03%		0.84%		0.90%		0.87%		0.8
urn on average kholders equity		9.94%		10.05%		11.16%		8.85%		9.26%		9.49%		8.4
ckholders equity otal assets		9.04%		8.76%		9.35%		9.03%		9.90%		9.04%		9.0
rating efficiency		66.38%		60.10%		61.63%		65.91%		68.88%		67.36%		65.4
interest margin		4.72%		4.47%		4.59%		4.38%		4.16%		4.27%		4.0
performing ts to total assets		0.13%		0.28%		0.14%		0.35%		0.50%		0.55%		0.3

Table of Contents

	Quarter Ended		Fiscal Year Ended				
	6/30/2006	6/30/2005	3/31/2006	3/31/2005	3/31/2004	3/31/2003	3/31/2002
Statistical Data:							
Number of employees (full-time equivalents) (note: ftes are at period end, not average in period)	267	268	270	270	215	135	127
Number of service branches	20	20	20	20	20	8	8
Balance Sheet Data:							
Total assets	$ 883,536	$ 843,961	$ 846,003	$ 801,122	$ 700,232	$ 332,398	$ 307,840
Loans receivable, net	662,624	602,997	632,543	562,101	459,114	251,805	234,396
Mortgage-backed securities	50,801	59,401	52,155	61,904	77,027	9,618	11,433
Investment securities	48,327	48,325	48,541	48,334	38,787	16,813	12,524
Deposits	637,158	561,655	570,040	518,676	480,548	203,189	188,857
FHLB advances and other borrowings	147,373	193,823	176,817	185,337	132,056	81,816	79,722
Securities sold under agreements to repurchase	11,821	6,719	9,636	16,023	10,487	11,151	7,265
Stockholders equity	79,897	73,960	79,130	72,311	69,332	30,064	27,813
Capital Ratios: (Bank)							
Total capital to risk-weighed assets	11.4%	10.6%	11.6%	10.3%	10.5%	13.1%	13.5%
Tier 1 capital to risk-weighed assets	9.7%	8.8%	9.8%	9.0%	9.2%	11.8%	12.3%
Tier 1 capital to average assets	7.4%	6.6%	7.3%	6.7%	6.5%	8.4%	8.8%

UNAUDITED PRO FORMA COMPARATIVE PER SHARE DATA FOR THE YEAR ENDED DECEMBER 31, 2005 AND MARCH 31, 2006, RESPECTIVELY

The following table summarizes unaudited per share information for Sterling and FirstBank NW on a historical basis and a pro forma combined basis for Sterling. For purposes of the pro forma financial information provided below, it has been assumed that the merger was completed on January 1, 2005 and April 1, 2005, respectively, for income statement purposes, and on December 31, 2005 and March 31, 2006, respectively, for balance sheet purposes. Sterling s fiscal year end is December 31st and FirstBank NW s fiscal year end is March 31st. Therefore, the following information should be read in conjunction with the audited consolidated financial statements of Sterling as of and for the year ended December 31, 2005, which are incorporated by reference into this document, and the audited consolidated financial statements of FirstBank NW as of and for the year ended March 31, 2006, which are incorporated by reference into this document. The following pro forma information has been prepared in accordance with the rules and regulations of the SEC and accordingly includes the effects of purchase accounting. It does not reflect cost savings, synergies or certain other adjustments that may result from the merger of FirstBank NW into Sterling. This information is presented for illustrative purposes only and is not necessarily indicative of the operating results or financial position that would have occurred if the merger had been completed as of the dates indicated, nor is it necessarily indicative of the future operating results or financial position of the combined company.

The historical book value per share is computed by dividing total shareholders equity by the number of shares of common stock outstanding at the end of the period. The pro forma income per share of the combined company is computed by dividing the pro forma net income available to holders of the combined company s common stock by the pro forma weighted average number of shares outstanding for the periods presented. The pro forma combined book value per share is computed by dividing total pro forma shareholders equity by the pro forma number of common stock outstanding at the end of the period presented.

	Sterling As of and For the Twelve Months Ended December 31, 2005	FirstBank NW As of and For the Twelve Months Ended March 31, 2006	Pro Forma Combined	Pro Forma FirstBank NW Equivalent(1)
Earnings for fiscal year:				
Basic	$ 1.77	$ 1.45	$ 1.76	$ 1.39
Diluted	$ 1.75	$ 1.41	$ 1.74	$ 1.37
Cash dividends declared:				
For fiscal year	$ 0.105	$ 0.37	$ 0.15(2)	$ 0.12
Book value per share:				
As of fiscal year end	$ 14.54	$ 13.35	$ 14.70(3)	$ 11.60

(1) Computed by multiplying the pro forma combined amounts by 0.7890, the number of Sterling shares to be issued in the merger for each outstanding share of FirstBank NW common stock.

(2) Combined pro forma dividends represents Sterling dividends per share for the year ended December 31, 2005 and FirstBank NW dividends per share for the year ended March 31, 2006.

(3) Computed by adding 4,991,563 the assumed maximum number of Sterling shares to be issued in the merger, to the 34,855,549 outstanding shares reported by Sterling at December 31, 2005.

MARKET PRICE DATA AND DIVIDEND INFORMATION

Comparative Market Price Information

The following table presents trading information for Sterling common stock and FirstBank NW common stock on the Nasdaq Global Market on June 2, 2006, the last trading day prior to the announcement of the signing of the merger agreement, and on [1], 2006, the last practical trading day for which information was available prior to the date of the printing of this proxy statement/prospectus.

	Closing Sales Price		
	Sterling	FirstBank NW	FirstBank NW Equivalent(1)
Price per share:			
June 2, 2006	$ 31.19	$ 22.03	$ 27.16
[1], 2006	[1]	[1]	[1]

(1) 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 June 2, 2006 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.

You should obtain current market quotations for Sterling common stock. The market price of Sterling common stock will likely fluctuate between the date of this document and the date on which the merger is completed and after the merger. 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.

Historical Market Prices and Dividend Information

Sterling.

Sterling common stock is listed on the Nasdaq Global Select Market System under the symbol STSA. The following table sets forth, for the calendar quarters indicated, the high and low sales prices per share of Sterling common stock as reported on the Nasdaq Global Select Market System.

As of June 30, 2006, there were 35,092,842 outstanding shares of Sterling common stock held by approximately 1,850 shareholders of record.

The board of directors of Sterling from time to time evaluates the payment of cash dividends. The timing and amount of any future dividends will depend upon earnings, cash and capital requirements, the financial condition of Sterling and its subsidiaries, applicable government regulations and other factors deemed relevant by Sterling s board of directors. Sterling paid the following historical cash dividends:

	Per Share

Date Paid	Amount	Total
October 2005	$ 0.050	$ 1.7 million
January 2006	0.055	1.9 million
April 2006	0.060	2.1 million
July 2006	0.065	2.3 million

In July 2006, Sterling announced a quarterly cash dividend of $0.07 per share, payable on October 13, 2006 to shareholders of record as of September 29, 2006.

Table of Contents

FirstBank NW.

FirstBank NW common stock is listed on the Nasdaq Global Market System under the symbol FBNW. The following table sets forth, for the calendar quarters indicated, the high and low sales prices per share of FirstBank NW common stock as reported on the Nasdaq Global Market System.

As of June 30, 2006, there were 6,062,186 outstanding shares of FirstBank NW common stock held by approximately 477 holders of record.

The board of directors of FirstBank NW from time to time evaluates the payment of cash dividends. The timing and amount of any future dividends will depend upon earnings, cash requirements, capital requirements, the financial condition of FirstBank NW and its subsidiaries, applicable government regulations and other factors deemed relevant by FirstBank NW s board of directors. FirstBank NW paid the following historical cash dividends:

Date Paid	**Per Share Amount**	**Total**
August 2005	$ 0.085	$ 0.5 million
December 2005	0.100	0.6 million
March 2006	0.100	0.6 million
May 2006	0.100	0.6 million
August 2006	0.100	0.6 million

Sterling and FirstBank NW Quarterly Stock Price and Dividend Paid Information.

	Sterling Common Stock			**FirstBank NW Common Stock**		
	High	**Low**	**Dividends**	**High**	**Low**	**Dividends**
2006						
Quarter ended June 30	$ 32.35	$ 28.31	$ 0.065	$ 26.400	$ 18.110	$ 0.100
Quarter ended March 31	29.91	24.50	0.060	18.620	15.705	0.100
2005						
Quarter ended December 31	26.78	21.86	0.055	16.000	13.620	0.100
Quarter ended September 30	27.39	21.66	0.050	14.450	13.585	0.085
Quarter ended June 30	25.12	21.69	0.000	14.050	12.500	0.085
Quarter ended March 31	26.75	23.36	0.000	14.500	13.290	0.085
2004						
Quarter ended December 31	27.50	23.26	0.000	14.720	13.665	0.085
Quarter ended September 30	23.87	20.45	0.000	14.625	13.295	0.085
Quarter ended June 30	22.57	19.05	0.000	14.875	12.250	0.085
Quarter ended March 31	23.61	20.12	0.000	15.450	14.825	0.085

THE ANNUAL MEETING OF FIRSTBANK NW SHAREHOLDERS

This proxy statement/prospectus constitutes the proxy statement of FirstBank NW for use at the annual meeting of FirstBank NW s shareholders to be held on [l], 2006, at the Quality Inn, 700 Port Drive, Clarkston, Washington, at 2:00 p.m., local time, and any adjournments thereof.

At the annual meeting, the shareholders of FirstBank NW will consider and vote upon (i) approval of the merger of FirstBank NW into Sterling, as provided in the merger agreement, which is included as Appendix A; (ii) election of four directors to the FirstBank NW board of directors; (iii) ratification of the appointment of Moss Adams LLP as the independent auditors of FirstBank NW; and, if necessary, (iv) approval of any proposal by the FirstBank NW board of directors to adjourn or postpone the annual meeting, if necessary to solicit additional proxies in favor of the merger agreement.

Pursuant to the merger agreement, FirstBank NW will merge with and into Sterling, and FirstBank NW s wholly owned subsidiary, FirstBank Northwest, will merge with and into Sterling Savings Bank. FirstBank Northwest s special purpose subsidiaries, Tri Star Financial Corporation and Pioneer Development Corp., will become independently operating wholly owned subsidiaries of Sterling Savings Bank. We expect to complete the merger of FirstBank NW with and into Sterling during the fourth quarter of 2006.

When we complete the merger, FirstBank NW shareholders will receive a combination of cash and shares of Sterling common stock as merger consideration for each share of FirstBank NW common stock they own, as described in The Merger Consideration to be Received in the Merger. Sterling common stock received by certain affiliates of FirstBank NW will be subject to certain sale and transfer restrictions as described in The Merger Restrictions on Resales by Affiliates. Sterling common stock received by all other FirstBank NW shareholders will be unrestricted publicly traded stock.

All information contained in this proxy statement/prospectus with respect to FirstBank NW has been supplied by FirstBank NW. All information contained in this proxy statement/prospectus with respect to Sterling has been supplied by Sterling.

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

Voting and Proxy Procedure

Shareholders Entitled to Vote.

The close of business on [l], 2006 was the record date for determining FirstBank NW shareholders entitled to receive notice of and to vote at the annual meeting. On the record date, there were [l] shares of FirstBank NW common stock outstanding held by [l] holders of record. FirstBank has no other class of voting securities outstanding. Each holder of FirstBank NW common stock is entitled to one vote for each share of FirstBank NW common stock in that holder s name on FirstBank NW s books as of the record date on any matter submitted to the vote of the FirstBank NW shareholders at the annual meeting.

As provided in FirstBank NW s articles of incorporation, record holders of FirstBank NW common stock who beneficially own, either directly or indirectly, in excess of 10% of FirstBank NW s outstanding shares are not entitled to any vote with respect to the shares held in excess of the 10% limit.

If you are a beneficial owner of FirstBank NW common stock held by a broker, bank or other nominee (*i.e.,* in street name), you will need proof of ownership to be admitted to the annual meeting. A recent brokerage statement or letter from a bank or broker are examples of proof of ownership. If you want to vote your shares of FirstBank NW common stock held in street name in person at the annual meeting, you will have to get a written proxy in your name from the broker, bank or other nominee who holds your shares.

Table of Contents

Voting Your Shares.

If you are the registered owner of your shares (*i.e.*, your shares are not held in street name), you must complete and return a written proxy card in order to vote your shares. If your shares are held in street name, you can vote your shares using one of the following methods:

Vote through the Internet at www.proxyvote.com;

Vote by telephone using the toll-free number shown on the proxy card; or

Complete and return a written proxy card.

Votes submitted through the Internet or by telephone must be received by 11:59 p.m., Eastern Time, on [l], 2006. Internet and telephone voting are available 24 hours a day, and if you use one of those methods, you do not need to return a proxy card.

You can also vote in person at the annual meeting, and submitting your voting instructions by any of the methods mentioned above will not affect your right to attend the annual meeting and vote.

Quorum.

The presence, in person or by proxy, of at least a majority of the total number of outstanding shares of FirstBank NW common stock entitled to vote is necessary to constitute a quorum at the annual meeting. Abstentions and broker non-votes will be counted as shares present and entitled to vote at the annual meeting for purposes of determining the existence of a quorum.

Proxies; Proxy Revocation Procedures.

The FirstBank NW board of directors solicits proxies so that each shareholder has the opportunity to vote on the election of the director nominees and the proposals to be considered at the annual meeting. When a proxy card is returned properly signed and dated, the shares represented thereby will be voted in accordance with the instructions on the proxy card. If a shareholder of record attends the annual meeting, he or she may vote by ballot. Where no instructions are indicated, proxies will be voted in accordance with the recommendations of the FirstBank NW board of directors. The board recommends a vote:

FOR the election of the nominees for director;

FOR the ratification of the appointment of Moss Adams LLP as FirstBank NW s independent auditors;

FOR approval of the merger agreement; and

FOR any proposal by the board of directors of FirstBank NW to adjourn or postpone the annual meeting, if necessary, to solicit additional proxies in favor of the merger agreement.

FirstBank NW shareholders may revoke a proxy at any time by: (i) sending written notice of revocation to the corporate secretary of FirstBank NW prior to the annual meeting; (ii) executing and delivering a proxy for the annual meeting bearing a later date; or (iii) attending the annual meeting and voting in person. Attendance at the annual meeting will not automatically revoke a proxy, but a shareholder in attendance may request a ballot and vote in person thereby revoking a prior granted proxy.

Proxies that do not provide the proxy holders with direction in voting on the merger agreement or with respect to adjournments will be voted in favor of the merger agreement, the election of the nominees for director, the ratification of the appointment of the independent auditors and granting authority to adjourn the annual meeting, in accordance with the recommendation of the board of directors of FirstBank NW. FirstBank NW shareholders who provide no instruction with respect to the merger agreement will not be eligible to assert their dissenters rights.

Table of Contents

Participants in the FirstBank NW ESOP or 401(k) Profit Sharing Plan.

If you are a participant in the FirstBank Northwest Employee Stock Ownership Plan (the ESOP) or if you hold shares through the FirstBank Northwest 401(k) Profit Sharing Plan, the proxy card represents a voting instruction to the trustees as to the number of shares in your plan account. Each participant in the ESOP and 401(k) Profit Sharing Plan may direct the trustees as to the manner in which shares of FirstBank NW common stock allocated to the participant s plan account are to be voted. Unallocated shares of FirstBank NW common stock held by the ESOP and allocated shares for which no voting instructions are received will be voted by the trustees for or against the merger in the same proportions as the ESOP participants who provided voting instructions. ESOP shares for which voting instructions were not received will be voted by the Trustees in accordance with instructions provided by the ESOP plan administrator. The deadline for returning your voting instructions to the trustees is [l], 2006.

Vote Required.

Under the terms of the merger agreement, the approval of the merger agreement will require the affirmative vote, in person or by proxy, of a majority of the outstanding shares of FirstBank NW common stock. The directors and executive officers of FirstBank NW and their affiliates hold 9.1% of the outstanding shares entitled to vote. Thirteen of FirstBank NW s shareholders, Messrs. Acuff, Conklin, Cox, Durgan, Gentry, Jurgens, Marker, Moxley, Otte, Powell, Reuling, Young and Zenner, have agreed to vote an aggregate of 9.2% of FirstBank NW s outstanding common stock in favor of the merger agreement. See the section entitled The Merger Agreement Voting Agreements. Because approval of the merger agreement requires the affirmative vote of a majority of the outstanding shares of FirstBank NW common stock, abstentions and broker non-votes will have the same effect as a vote against the merger.

The affirmative vote of a plurality of the votes cast at the annual meeting is required for the election of directors. Pursuant to FirstBank NW s articles of incorporation, shareholders are not permitted to cumulate their votes for the election of directors. With respect to the election of directors, votes may be cast for or withheld from one or more nominees. Votes that are withheld and broker non-votes will have no effect on the outcome of the election. Director nominees receiving the greatest number of votes will be elected.

The ratification of the appointment of Moss Adams LLP as FirstBank NW s independent auditors and the granting of authority to adjourn the annual meeting, if necessary, each require the affirmative vote of a majority of the outstanding shares of FirstBank NW common stock present in person or by proxy and entitled to vote at the annual meeting. Abstentions are not affirmative votes and, therefore, will have the same effect as a vote against these proposals and broker non-votes will be disregarded and will have no effect on the outcome of the vote.

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.

Adjournments

Although it is not anticipated, the annual meeting may be adjourned for the purpose of soliciting additional proxies in favor of the merger agreement. Any adjournment of the annual meeting may be made without notice, other than by an announcement made at the annual meeting, by approval of the holders of a majority of the shares of FirstBank NW common stock present in person or represented by proxy at the annual meeting, whether or not a quorum exists. Any adjournment of the annual meeting for the purpose of soliciting additional proxies will allow FirstBank NW s shareholders who have already sent in their proxies to revoke them at any time prior to their use.

Table of Contents

Proxy Solicitation

The accompanying proxy is being solicited by the board of directors of FirstBank NW. FirstBank NW will bear the entire cost of solicitation of proxies from holders of its shares. In addition to the solicitation of proxies by mail, certain officers, directors and employees of FirstBank NW, without extra remuneration, may also solicit proxies in person, by telephone, facsimile or otherwise. FirstBank NW will pay printing, postage and mailing costs for preparation and mailing of the proxy statement/prospectus. All other costs, including legal and accounting fees, shall be borne by the party incurring such costs. In addition, FirstBank NW has engaged Regan & Associates, Inc. to assist in distributing proxy materials and contacting record and beneficial owners of FirstBank NW common stock, and has agreed to pay a fee of $7,000, including out-of-pocket expenses, for its services to be rendered on behalf of FirstBank NW.

Security Ownership of Management and Certain Beneficial Owners

The following table sets forth information as of June 30, 2006 regarding the shares of FirstBank NW common stock beneficially owned by (i) each person known by FirstBank NW to own beneficially more than 5% of FirstBank NW s common stock; (ii) each director of FirstBank NW; (iii) each executive officer of FirstBank NW named in the summary compensation table in the section entitled, Executive Compensation Executive Compensation Table ; and (iv) all directors and executive officers of FirstBank NW as a group. Except as noted below, each holder has sole voting and investment power with respect to shares of FirstBank NW common stock listed as owned by that person.

Name	Number of Shares Beneficially Owned(1)(2)	Percent of Shares Outstanding
Beneficial Owners of more than 5%		
Crescent Capital VI, L.L.C. Jeffrey D. Gow 11624 S.E. 5th Street, Suite 200 Bellevue, Washington 98005	539,492(3)	9.1%
Directors		
Steve R. Cox	73,000	1.2
John W. Gentry	69,660	1.1
W. Dean Jurgens	53,000	*
James N. Marker	29,348	*
Sandra T. Powell	2,800	*
Michael F. Reuling	2,800	*
Russell H. Zenner	40,392	*
Executive Officers		
Clyde E. Conklin(4)	163,109	2.7
Larry K. Moxley(4)	172,522	2.8
Terence A. Otte	60,940	1.0
Donn L. Durgan	57,121	*
Richard R. Acuff	36,378	*
All Executive Officers and Directors as a group (12 persons)	761,070	12.1

(1) In accordance with Rule 13d-3 under the Exchange Act, a person is deemed to be the beneficial owner, for purposes of this table, of any shares of FirstBank NW common stock over which he or she has voting or investment power and of which he or she has the right to acquire beneficial ownership within 60 days of June 30, 2006. The table includes shares owned by spouses, other immediate family members in trust, shares held in retirement accounts or funds for the benefit of the named individuals, and other forms of ownership, over which shares the persons named in the table may possess voting and/or investment power.

Table of Contents

(2) The amounts shown include the following amounts of FirstBank NW common stock which the indicated individuals have the right to acquire within 60 days of June 30, 2006 through the exercise of stock options granted pursuant to the FirstBank NW 1998 Stock Option Plan: Mr. Cox, 12,000; Mr. Jurgens, 11,000; Mr. Marker, 11,580; Mr. Zenner, 7,000; Mr. Conklin, 48,000; Mr. Moxley, 48,000; Mr. Otte, 16,000; Mr. Durgan, 16,000; and Mr. Acuff, 5,000. In addition, Mr. Gentry has the right to acquire 33,138 shares within 60 days of the record date under the Oregon Trail 1998 Stock Option Plan, which was assumed by FirstBank NW in connection with its acquisition of Oregon Trail Financial Corp. All executive officers and directors as a group have the right to acquire a total of 207,718 shares within 60 days of June 30, 2006.

(3) Information concerning the shares owned by Crescent Capital VI, L.L.C. and Mr. Gow was obtained from a Schedule 13D/A dated June 16, 2006. According to this filing, Crescent Capital VI, L.L.C. and Mr. Gow, the managing member of Crescent Capital VI, L.L.C., have sole voting and dispositive power over 539,492 shares.

(4) Messrs. Conklin and Moxley are also directors of FirstBank NW and FirstBank Northwest.

THE MERGER

General

The boards of directors of Sterling and FirstBank NW have unanimously approved the merger agreement providing for the merger of FirstBank NW with and into Sterling, with Sterling being the surviving entity, and the merger of FirstBank Northwest with and into Sterling Savings Bank, with Sterling Savings Bank being the surviving institution. FirstBank Northwest s wholly owned subsidiaries, Tri Star Financial Corporation and Pioneer Development Corp., will become wholly owned subsidiaries of Sterling Savings Bank. We expect to complete the merger of FirstBank NW with and into Sterling during the fourth quarter of 2006.

Background of the Merger

FirstBank NW, a Washington corporation, is the holding company that owns 100% of the issued and outstanding common stock of FirstBank Northwest. FirstBank NW was initially organized as a Delaware corporation in 1997 in connection with the mutual-to-stock conversion of FirstBank Northwest, and was reincorporated as a Washington corporation in 1999. FirstBank NW is a thrift holding company regulated primarily by the Office of Thrift Supervision. The primary activity of FirstBank NW is overseeing the business of FirstBank Northwest. FirstBank Northwest, which was chartered in 1920, is a Washington State-chartered capital stock savings bank and is headquartered in Clarkston, Washington. In addition to the executive and administrative offices in Clarkston, FirstBank Northwest operates 20 full-service banking offices throughout seven counties in eastern Washington and Idaho and seven counties in eastern Oregon. FirstBank Northwest also operates five real estate loan production centers and five commercial and agricultural production centers located in Idaho, Washington and Oregon. FirstBank NW s presence in eastern Oregon is attributable to the October 2003 acquisition of Oregon Trail Financial Corp. and its wholly owned subsidiary, Pioneer Bank, a federal savings bank. The acquisition doubled FirstBank NW s asset size and its outstanding common stock.

Following the acquisition of Oregon Trail Financial Corp., FirstBank NW was contacted in December 2003 by Crescent Capital VI, L.L.C. (Crescent Capital), a private investment company, in connection with its intention to acquire over 5% of FirstBank NW s outstanding common stock. On December 7, 2003, FirstBank NW s management met with Crescent Capital s representatives, Messrs. Jeffery D. Gow and Steve D. Wasson, to discuss FirstBank NW s business plan and Crescent Capital s proposal for increasing FirstBank NW s profitability and Crescent Capital s participation in the expansion of FirstBank NW s lending into the Portland and Seattle markets.

On January 20, 2004, Mr. Wasson contacted FirstBank NW s president to notify him of Crescent Capital s acquisition of over 5% of FirstBank NW s outstanding shares of common stock. On January 22, 2004, Crescent Capital filed a Schedule 13D announcing its ownership of 150,652 shares, or 5.3% of the outstanding shares of FirstBank NW s common stock and its intention to influence FirstBank NW s material business

Table of Contents

decisions. On February 19, 2004, FirstBank NW s board met to discuss the consequences of the Crescent Capital stock ownership and Schedule 13D filing. On February 24, 2004, Crescent Capital amended its Schedule 13D to report that its stock ownership of FirstBank NW had increased to 192,064 shares, or 6.8% of FirstBank NW s outstanding shares of common stock. On March 5, 2004, FirstBank NW s management met with Messrs. Gow and Wasson to discuss the possible partnering of FirstBank NW and Crescent Capital, which would include a capital contribution from Crescent Capital. Subsequently, Crescent Capital filed an amended Schedule 13D with the SEC on March 11, 2004, reporting that it had increased its ownership to 269,746 shares, or 9.5% of FirstBank NW s outstanding shares of common stock. On March 18, 2004, FirstBank NW s board of directors met to discuss Crescent Capital s increase in its stock ownership in FirstBank NW and the implications of such stock ownership. In early April 2004, Crescent Capital contacted FirstBank NW and requested a meeting for the purpose of discussing a proposal for a strategic partnership with FirstBank NW and requesting that FirstBank NW enter into a confidentiality agreement with Crescent Capital to further explore this possibility. On April 6, 2004, Messrs. Gow and Wasson met with FirstBank NW s management to discuss Crescent Capital s proposal. On April 12, 2004, FirstBank NW indicated to Crescent Capital that its proposal would be presented to FirstBank NW s board of directors for consideration and Crescent Capital would be notified of the board s decision. On April 21, 2004, the FirstBank NW board met to discuss the Crescent Capital proposal and its request for FirstBank NW to enter into a confidentiality agreement. On April 27, 2004**,** the board held a special meeting, which was attended by FirstBank NW s special counsel, for the purpose of discussing the Crescent Capital proposal, including entering into a confidentiality agreement. At the special meeting, the board of directors determined that it would decline the Crescent Capital proposal and that a letter conveying the board s decision would be prepared to formally decline the proposal.

On April 30, 2004, Crescent Capital contacted FirstBank NW and again requested a meeting for the purpose of discussing their proposal of partnering with FirstBank NW. On May 5, 2004, FirstBank NW s management met with Messrs. Gow and Wasson to inform them of the board s determination to decline Crescent Capital s proposal. To confirm the results of the meeting, FirstBank NW sent a letter to Crescent Capital on May 10, 2004, indicating that FirstBank NW s board of directors had reviewed and evaluated the Crescent Capital proposal compared to its long-term business plan and had determined not to proceed on the Crescent Capital proposal because it did not believe it would further FirstBank NW and its shareholders interests and because the proposal raised difficult legal and regulatory issues.

On May 13, 2004, Crescent Capital s representative contacted FirstBank NW s president regarding the possibility of nominating a Crescent Capital representative to the FirstBank NW board of directors. During the months of May and June 2004, the Crescent Capital request for representation on the FirstBank NW board of directors was discussed by FirstBank NW s Corporate Governance and Nominating Committee and the board of directors with the assistance of its special counsel.

In July 2004, Crescent Capital requested a meeting with FirstBank NW for the purpose of revisiting its request for representation on the FirstBank NW board and to request an amendment to the FirstBank NW articles of incorporation to remove the voting restriction pertaining to shareholders owning over 10% of FirstBank NW s common stock. On July 14, 2004, FirstBank NW s management met with Messrs. Gow and Wasson to discuss Crescent Capital s proposals. Following the meeting, the FirstBank NW board of directors met on July 21, 2004 in an executive session with FirstBank NW s special counsel in attendance to discuss the Crescent Capital proposals. Subsequently, the board of directors met again on August 19, 2004 to discuss the Crescent Capital proposals. At the meeting, the board agreed to consider nominating Mr. Gow to serve as a director of FirstBank NW and FirstBank Northwest boards of directors, subject to Crescent Capital entering into a standstill agreement with FirstBank NW, and Mr. Gow meeting the qualifications established for director nominees by the FirstBank NW Corporate Governance and Nominating Committee. At the meeting, the board also determined to decline Crescent Capital s proposal to amend FirstBank NW s articles of incorporation to eliminate the provision restricting the voting power of over 10% shareholders. On August 25, 2004, the FirstBank NW board of directors held a special meeting to further discuss the Crescent Capital proposal and to review the letter and a form of standstill agreement to be delivered to Crescent Capital. On September 1, 2004, FirstBank NW participated in a conference call with Crescent Capital for the purpose of informing Crescent Capital of FirstBank NW s decision to propose Mr. Gow s nomination to the board, subject to the

Table of Contents

execution of a standstill agreement. A letter dated September 1, 2004 was sent to Crescent Capital to convey the board s decision and the conditions of Mr. Gow s nomination to the FirstBank NW and FirstBank Northwest boards.

On October 1, 2004, counsel for Crescent Capital sent a letter to FirstBank NW indicating that Crescent Capital would not accept a board seat on the terms proposed by FirstBank NW and that the provisions of the standstill agreement were too restrictive. A copy of the letter from Crescent Capital s counsel and a proposed response to the letter was provided by FirstBank NW s President to the FirstBank NW board at a meeting held on October 21, 2004 for review and comment. On October 22, 2004, FirstBank NW sent a response to Crescent Capital regarding FirstBank NW s conditions in connection with Mr. Gow s nomination to the FirstBank NW board of directors.

During the period from November 2004 until August 2005, the FirstBank NW board of directors discussed FirstBank NW s ability to achieve its long-term goals described in its business plan, increasing shareholder value, and plans of management succession. On August 8, 2005, a representative of a regional investment banking firm contacted FirstBank NW indicating that it had a bank holding company client (Company A) that was interested in meeting with FirstBank NW to discuss a possible business combination. On August 16, 2005, FirstBank NW s president indicated to the investment banking firm that FirstBank NW would be interested in exploring Company A s unsolicited expression of interest. FirstBank NW contacted RP Financial to assist the board in its analysis of Company A s expression of interest. During September 2005, the board, with the assistance of special counsel and RP Financial, discussed Company A s expression of interest and determined that it would be in the best interests of FirstBank NW and its shareholders to have further discussions with Company A. On October 27, 2005, the president and chief financial officer of Company A and the president, chief financial officer and chairman of the board of FirstBank NW held a meeting to discuss a possible business combination.

On December 1, 2005, Company A submitted a proposal to acquire FirstBank NW. The FirstBank NW board reviewed the pricing and terms of the proposal with the assistance of FirstBank NW s special counsel and RP Financial at a special meeting held on December 2, 2005. The board determined to reject Company A s proposal based upon the price being inadequate, and on December 5, 2005, FirstBank NW s management informed Company A of the board s decision.

On February 1, 2006, Crescent Capital amended its Schedule 13D and submitted a proposal to acquire FirstBank NW for $19.075 per share (adjusted for FirstBank NW s subsequent two-for-one stock split). Following receipt of the letter from Crescent Capital, FirstBank NW issued a press release on February 1, 2006, announcing receipt of the Crescent Capital proposal and indicating that it would carefully evaluate the Crescent Capital proposal and the other alternatives available to FirstBank NW.

Following its February 1, 2006 press release, over the next couple of weeks FirstBank NW or its advisors received five unsolicited preliminary expressions of interest for a proposed business combination from five bank holding companies: Company B, Company C, Company D, Company E and Sterling.

On February 8, 2006, the FirstBank NW board of directors held a special meeting to discuss Crescent Capital s unsolicited proposal and other methods of enhancing shareholder value. To assist the board in its discussions, representatives of RP Financial, FirstBank NW s special counsel and representatives of Sandler O Neill & Partners, L.P. (Sandler O Neill) attended the meeting. Representatives of RP Financial provided a preliminary merger analysis and discounted cash flow analysis and an update on the merger and acquisition market. Special counsel to FirstBank NW provided the board of directors with a review of its fiduciary duties in evaluating the Crescent Capital proposal. Representatives of Sandler O Neill provided the board of directors with information that described the process and the timeframes involved should FirstBank NW elect to conduct a market test and a review of the expressions of interest that had been received to date. After discussing the expressions of interest that had been received by FirstBank NW and Sandler O Neill, the status of the merger and acquisition market and considering the challenges it faced in its business strategies, as well as the management succession issues and the ability of FirstBank NW to continue increasing shareholder value, the board decided to proceed with a market test. The board resolved to evaluate any proposals resulting from a market test and compare them to the value that could be realized should FirstBank NW continue to pursue its business plan as an independent organization and to compare the resulting proposals to the Crescent Capital proposal. RP Financial was authorized by the board to proceed with its analysis of the Crescent Capital proposal. The board also determined to establish a Long Range Planning Committee to assist the board in its evaluation of the Crescent Capital proposal and other proposals it might receive.

On February 9, 2006, during an executive session of FirstBank NW s board of directors, the board appointed a Long Range Planning Committee to review the Crescent Capital proposal and to help evaluate the Crescent Capital proposal, as well as other alternatives that might be available to FirstBank NW. The board of directors appointed Clyde E. Conklin, Larry K. Moxley, Steve R. Cox, Russell H. Zenner and Sandra T. Powell to serve on the committee. The board also authorized management to execute engagement letters with RP Financial and Sandler O Neill, as negotiated and approved by the committee. On February 22, 2006, FirstBank NW engaged Sandler O Neill to provide financial advisory services to FirstBank NW in determining the appropriate and desirable values to be received in a business combination or other alternative transaction. On February 22, 2006, FirstBank NW engaged RP Financial regarding the strategic direction of FirstBank NW and its shareholder enhancement efforts. The scope of RP Financial s engagement included (i) strategic planning assistance; (ii) determination of a range of value pursuant to a change of control; (iii) assistance with business plan review and including advice on strategy execution; and (iv) advice on other strategic alternative services.

During February 2006, Sandler O Neill, working with FirstBank NW, prepared confidential information materials containing financial and operating information about FirstBank NW. Upon completion of the confidential materials, Sandler O Neill was authorized by the board in February 2006 to begin the process of identifying potential strategic partners, and, if possible, to begin the determination of the range of values that might be realized in a strategic alliance, as compared to Crescent s offer.

By letter dated February 16, 2006, Crescent Capital informed FirstBank NW that it had obtained a firm commitment to fund 100% of the equity financing from two private financial investors in connection with their offer to acquire FirstBank NW for $19.075 per share. On February 21, 2006, Crescent Capital filed an amendment to its Schedule 13D to disclose the terms of its revised proposal to acquire FirstBank NW and the addition of $40.3 million in equity financing from two private financial investors.

In a letter to Crescent Capital dated February 24, 2006, FirstBank NW acknowledged receipt of Crescent Capital s initial and revised proposal. FirstBank NW indicated to Crescent Capital that it had reviewed the proposal and that it, and its advisors, were concerned that the proposal presented numerous regulatory and other issues with respect to the structure and financing of the transaction. In connection with these concerns and to assist it in further evaluating the Crescent Capital proposal, FirstBank NW requested additional information from Crescent Capital regarding the structure and financing of the transaction, as well as information concerning the two private financial investors.

At the end of February 2006, Sandler O Neill identified and contacted six financial institutions that could enhance the shareholder value of FirstBank NW, all of whom were bank holding companies. Sterling was contacted by Sandler O Neill on February 23, 2006 to determine whether Sterling was still interested in a potential business combination with FirstBank NW. Of the six companies contacted, Sterling executed a confidentiality agreement on February 25, 2006 and Company A, Company B, Company C and Company D executed confidentiality agreements in late February and early March 2006. Company E indicated that it was no longer interested in pursuing a transaction and therefore did not execute a confidentiality agreement. In addition, during this period, FirstBank NW s management met with Companies B and C to discuss certain due diligence information.

On February 27, 2006, the Sterling board of directors was informed of the potential business combination with FirstBank NW, and the board authorized Sterling s management to conduct due diligence and engage in negotiations.

On March 1, 2006, FirstBank NW s Long Range Planning Committee met to discuss the non-public information to be provided to the potential strategic partners requesting information. After the Long Range

Table of Contents

Planning Committee had approved the confidential materials to be provided to interested parties by Sandler O Neill, the companies that had executed confidentiality agreements received the confidential materials.

During the end of February 2006 and the beginning of March 2006, FirstBank NW was contacted by a savings and loan holding company (Company F) regarding a potential strategic partnership. On March 6, 2006, Sandler O Neill contacted Company F and an additional commercial bank (Company G) on behalf of FirstBank NW. Company F was provided a copy of the confidential materials prepared by Sandler O Neill in connection with the signing of a confidentiality agreement. After it had reviewed the confidential materials, Company F indicated that it was not interested in pursuing a transaction with FirstBank NW.

On March 6, 2006, FirstBank NW s Long Range Planning Committee met to discuss the potential operating synergies and cost savings and desired transaction structures. FirstBank NW s special counsel, Sandler O Neill and RP Financial also attended the meeting to assist the committee in its analysis of each of the financial institutions that had expressed an interest in FirstBank.

On March 6, 2006, FirstBank NW received a response from Crescent Capital regarding FirstBank NW s letter of February 24, 2006. In response to FirstBank NW s concerns regarding the regulatory aspects of the transaction, Crescent Capital indicated that it believed regulatory approval could be obtained. Crescent Capital also reiterated that it could obtain the necessary financing for the transaction and provided an analysis of the impact of the Crescent Capital proposal on the various constituencies of FirstBank NW. Crescent Capital proposed that FirstBank NW enter into a mutual non-disclosure agreement so that FirstBank NW and Crescent Capital could begin to exchange nonpublic information. A form of mutual non-disclosure agreement was attached to the letter for FirstBank NW s review and consideration.

On March 9, 2006, FirstBank NW issued a response to Crescent Capital s letter of March 6, 2006, indicating that the information that had been provided by Crescent Capital regarding the transaction fell short of the detail that was needed for the FirstBank NW board to evaluate the proposal. FirstBank NW also indicated that it would be willing to enter into a mutual non-disclosure agreement with Crescent Capital if it would permit Crescent Capital to provide FirstBank NW with the information requested in connection with its review of the Crescent Capital proposal.

On March 12, 2006, FirstBank NW, along with its special counsel, participated in a conference call with Crescent Capital s legal counsel to discuss the terms of the proposed mutual non-disclosure agreement with Crescent Capital. On that same date, FirstBank NW s special counsel provided comments on the proposed form of mutual non-disclosure agreement to Crescent Capital s legal counsel.

At a meeting of FirstBank NW s Long Range Planning Committee held on March 14, 2006, RP Financial provided an analysis to the Long Range Planning Committee regarding going-private transactions, including the obstacles to FirstBank NW in considering this alternative, which the Long Range Planning Committee determined not to pursue. The Long Range Planning Committee also reviewed the communications with Crescent Capital, reviewed the proposed mutual non-disclosure agreement, and discussed alternatives and possible timelines. On March 16, 2006, FirstBank NW s special counsel spoke with Crescent Capital s legal counsel to discuss the regulatory issues and challenges that the proposed acquisition presented.

On March 16, 2006, FirstBank NW management met with Sterling to discuss certain due diligence information. On March 24, 2006, FirstBank NW received a written preliminary non-binding indication of interest from Sterling for a consideration mix with a value of $25.51 per share based on Sterling s ten day average stock price at that time. During March 2006, Companies A, B, C and D also submitted preliminary non-binding indications of interest to FirstBank NW.

Sterling s proposal was for a fixed consideration of 90% stock and 10% cash, which was valued at $25.51 per share based on Sterling s average stock price for the ten-day period that ended on March 23, 2006. The stock component of the consideration was a fixed exchange ratio.

The proposal from Company B was for $23.29 to $23.70 per share and was an 80% stock and 20% cash mixture.

Table of Contents

The proposal from Company C was for $22.50 to $24.00 per share and was a 70% stock and 30% cash mixture.

The proposals submitted by Company A and Company D provided for pricing less than the pricing set forth in the proposals of Sterling, Company B and Company C.

In mid to late March 2006, FirstBank NW s special counsel and Crescent Capital s legal counsel discussed and exchanged comments regarding the preparation of the proposed mutual non-disclosure agreement. Of particular concern to FirstBank NW and its special counsel was the inclusion of a standstill provision that had been included in the confidentiality agreements entered into by other potential acquirors with FirstBank NW. Despite Crescent Capital s refusal to include a standstill provision in the mutual non-disclosure agreement, FirstBank NW entered into a definitive mutual non-disclosure agreement with Crescent Capital on March 27, 2006. The effect of not including a standstill provision in the mutual non-disclosure agreement restricted the nonpublic information that FirstBank NW would be willing to provide to Crescent Capital.

On March 29, 2006, FirstBank NW also received additional information from Crescent Capital. Following receipt of this information, the FirstBank NW board of directors held a special meeting on March 30, 2006 to provide an update regarding the expressions of interest that FirstBank NW had received to date, and also on information it had received from Crescent Capital. The board agreed that the Long Range Planning Committee should meet with Crescent Capital representatives to discuss their proposal.

On March 30, 2006, the FirstBank NW board met with Sandler O Neill and FirstBank NW s special counsel to review the pricing and terms of the preliminary non-binding indications of interest. After discussion with the board and its special counsel, the board determined that each of the preliminary non-binding expressions of interest from Sterling, Company B and Company C were attractive enough to merit further consideration by FirstBank NW. The board instructed Sandler O Neill to explore the possibility of more favorable terms, including price, from each of the parties and to seek clarification of certain items not addressed by the parties in their preliminary non-binding indications of interest. The board also instructed Sandler O Neill to contact Company A and Company D to indicate that their preliminary non-binding expressions of interest did not merit further consideration at their current pricing levels.

On March 31, 2006, FirstBank NW s special counsel contacted Crescent Capital s legal counsel offering additional nonpublic information regarding FirstBank NW if Crescent Capital would sign a confidentiality agreement that included a similar standstill provision contained in the confidentiality agreements FirstBank NW had entered into with other potential acquirors. Crescent Capital s legal counsel indicated that Crescent Capital would not sign an amended confidentiality agreement and that representatives of Crescent Capital insisted on a meeting with FirstBank NW.

On April 3, 2006, FirstBank NW signed a confidentiality agreement with Company G and Sandler O Neill provided the confidential materials to this prospective strategic partner. On April 3, 2006 and April 4, 2006, FirstBank NW s management and Sandler O Neill met with representatives from Company B and Company C.

On April 6, 2006, the FirstBank NW Long Range Planning Committee and RP Financial met with Messrs. Gow and Wasson, and Crescent Capital s legal counsel and financial advisors. The purpose of the meeting was for the committee to listen to a presentation prepared by Crescent Capital in connection with their proposal.

On April 6, 2006, Company B submitted a revised non-binding expression of interest increasing its price to $24.08 with an 80% stock and 20% cash mixture. On April 7, 2006, FirstBank NW received a revised non-binding expression of interest from Company C reconfirming the non-financial terms in its initial proposal and increasing its proposal to an amount which was valued at $24.50 per share and was a 70% stock and 30% cash mixture.

On April 7, 2006, Company G submitted a written preliminary non-binding indication of interest with a pricing level below the proposals from Sterling, Company B and Company C.

Table of Contents

On April 12, 2006, FirstBank NW held a special meeting of its board of directors to update the board on the revised non-binding expressions of interest received from Companies B and C and to discuss the other proposals that had been received. The meeting was attended by Sandler O Neill, FirstBank NW s special counsel and RP Financial. The board determined after evaluating the proposals received, and the value that could be realized should FirstBank NW continue to pursue its business plan as an independent organization, that pursuing a possible transaction was appropriate. The board decided to invite Sterling and Company C to conduct a detailed due diligence investigation of FirstBank NW. RP Financial provided the board with a summary of the Long Range Planning Committee meeting held on April 6, 2006 with Messrs. Gow and Wasson, Crescent Capital s legal counsel and financial advisors. RP Financial indicated that until the board received the additional financial and other information it had requested from Crescent Capital, it could not adequately evaluate the Crescent Capital proposal. FirstBank NW s special counsel suggested that Crescent Capital be approached to reconsider the standstill agreement that Crescent Capital had agreed to enter into if FirstBank NW provided them with confidential information. A discussion of the Crescent Capital proposal and its actions followed and the board decided to also invite Crescent Capital to conduct detailed due diligence subject to the execution of a standstill agreement, which the other two candidates had entered into with FirstBank NW. The board also instructed its Chairman and special counsel to notify Crescent Capital that the pricing of their proposal was significantly below the other proposals that FirstBank NW was considering, and to ascertain if Crescent Capital would reconsider the inclusion of a standstill provision in the mutual non-disclosure agreement.

On April 13, 2006, FirstBank NW, along with its special counsel, participated in a conference call with Crescent Capital and its legal counsel. FirstBank NW indicated to Crescent Capital at that time that there was a process that needed to be followed by FirstBank NW in its evaluation of the Crescent Capital proposal and that the pricing of their proposal was significantly less than other proposals it was considering.

On April 18, 2006, FirstBank NW and its special counsel received several calls from Crescent Capital s legal counsel to discuss the status of the Crescent Capital proposal. Crescent Capital s legal counsel indicated that they would be requesting that a committee of independent directors be appointed to evaluate the Crescent Capital proposal and requesting that the committee retain independent financial and legal advisors. FirstBank NW s special counsel discussed FirstBank NW s evaluation process of the Crescent Capital proposal in relation to the other proposals FirstBank NW had received. FirstBank NW s special counsel again reiterated that nothing was gained by the appointment of a special committee of FirstBank NW s board to evaluate the Crescent Capital and other proposals and again reminded Crescent Capital s legal counsel that the financial terms included in Crescent Capital s proposal were significantly inferior to others being considered.

On April 19, 2006, FirstBank NW received a letter from Crescent Capital inquiring as to the reason that FirstBank NW had not provided Crescent Capital with a response regarding the evaluation of their proposal by FirstBank NW. In addition, Crescent Capital indicated that it would be willing to increase its offer price if FirstBank NW met certain conditions, including (i) the formation of a committee of independent directors to negotiate with Crescent Capital; (ii) having the committee provide Crescent Capital with a timetable for responding to the Crescent Capital offer; and (iii) providing Crescent Capital the due diligence information Crescent Capital requested. Finally, Crescent Capital indicated that if FirstBank NW met these conditions, Crescent Capital would be willing to agree to reasonable standstill protections.

Following receipt of the April 19, 2006 letter from Crescent Capital, the FirstBank NW Long Range Planning Committee met on April 20, 2006 to discuss the letter. On April 21, 2006, FirstBank NW sent a letter to Crescent Capital responding to its April 19, 2006 letter concerning the Crescent Capital proposal and methods FirstBank NW used to evaluate the proposal, and requesting additional information that was needed to evaluate the proposal. FirstBank NW also reiterated that the Crescent Capital proposal was significantly less in financial terms compared to other offers it was considering.

On April 24, 2006, an amended Schedule 13D was filed by Crescent Capital, providing a summary of its actions in connection with its offer to acquire FirstBank NW and including letters to FirstBank NW and other related materials regarding its offer to acquire FirstBank NW. On April 25, 2006, FirstBank NW received two letters from Crescent Capital. The first letter stated that FirstBank NW should provide its shareholders with answers to certain questions. Crescent Capital also indicated that it was providing certain supplemental information regarding its proposal. The second letter from Crescent Capital was in response to FirstBank NW s letter of April 21, 2006, again concerning the methods FirstBank NW used to evaluate the Crescent Capital proposal. On April 26, 2006, FirstBank NW s Long Range Planning Committee met to discuss Crescent Capital s Schedule 13D filing of April 24, 2006. On that same day, FirstBank NW sent a letter to Crescent Capital indicating that the revised proposal referenced in their letter of April 19, 2006 needed to be submitted to FirstBank NW by May 5, 2006. In connection with the Crescent Capital revised proposal, Sandler O Neill contacted Crescent Capital s financial advisor to provide assistance in determining the additional information Crescent Capital needed to submit its revised proposal.

On April 27, 2006, FirstBank NW received two letters from Crescent Capital. The first letter was similar to Crescent Capital s letter of April 25, 2006 in which it stated that FirstBank NW should provide its shareholders with answers to certain questions related to the evaluation process for the Crescent Capital proposal, the advisors to FirstBank NW and providing certain supplemental information regarding its offer. The second letter from Crescent Capital requested that it be permitted to inspect and copy FirstBank NW s shareholder list for the purpose of communicating with FirstBank NW s shareholders regarding FirstBank NW s 2006 annual meeting of shareholders. On April 28 and April 29, 2006, Sandler O Neill provided Crescent Capital with confidential material for Crescent Capital to review concerning FirstBank NW. On May 1, 2006, Crescent Capital filed an amended Schedule 13D that included as exhibits its two letters dated April 27, 2006 to FirstBank NW.

During these exchanges with Crescent Capital, from April 21, 2006 through April 23, 2006, Company C conducted an on-site detailed due diligence investigation of FirstBank NW. On April 24, 2006, Sterling s board of directors held further discussions regarding the proposed combination at a regularly scheduled board meeting, and on April 25, 2006, Sterling Savings Bank s board of directors discussed the proposed combination at a regularly scheduled board meeting. From April 27, 2006 through April 28, 2006, and from May 1, 2006 through May 3, 2006, Sterling conducted on-site due diligence of FirstBank NW. Sterling also conducted additional due diligence investigation of FirstBank NW materials provided to Sterling and its counsel. Following its due diligence investigation of FirstBank NW, Sterling determined that it was still interested in an acquisition of FirstBank NW.

On May 2, 2006, FirstBank NW sent a letter to Crescent Capital in response to its request to inspect and copy FirstBank NW s shareholder list. FirstBank NW indicated that it had contacted its transfer agent for a current list of its shareholders and would provide the list to Crescent Capital upon its receipt. FirstBank NW also indicated to Crescent Capital that it had reconsidered Crescent Capital s request to appoint a special committee to evaluate any proposals received by FirstBank NW, but had determined that no committee would be appointed since FirstBank NW s board consists of a majority of independent directors. On May 5, 2006, FirstBank NW received a copy of its shareholder list from its transfer agent and forwarded a copy to Crescent Capital.

On May 4, 2006, Company C submitted an updated expression of interest that based upon its average stock on the date of the proposal, was valued at $25.00 per share and consisted of a 65% stock and 35% cash mixture. On May 5, 2006, Sterling delivered a revised letter of intent and reconfirmed the pricing structure of its initial proposal. Based upon the increase in the market value of Sterling s stock from the time it submitted its initial indication of interest, the value of Sterling s proposal at that time was $26.98 per share with a 91% stock and 9% cash mixture. Based in part on its due diligence review of FirstBank NW, Sterling was able to offer this price in light of cost savings it believed it could capture in the transaction through the consolidation of a significant number of overlapping branches and certain back office functions.

On May 5, 2006, FirstBank NW received a revised proposal from Crescent Capital for the cash purchase of all of the outstanding shares of FirstBank NW s common stock for $20.50 per share. On May 8, 2006, a special meeting of the FirstBank NW board was held for the purpose of reviewing the two revised expressions of interest from Sterling and Company C and the Crescent Capital proposal. Sandler O Neill, FirstBank NW s special counsel and RP Financial also attended this meeting. Sandler O Neill presented a financial performance overview of each of the parties, along with a detailed overview of each party s revised indications of interest.

Table of Contents

RP Financial provided the board with a preliminary merger valuation analysis in connection with the revised indications of interest. Comparative analysis for the parties was provided by RP Financial, as well as a detailed overview of the pro forma impact analysis for each of the two competing financial institution bidders, as well as a financial summary of the potential merger with each. RP Financial concluded that it would not be able to give a fairness opinion relative to Crescent Capital s proposal based on its analysis of the merger value range and since the price being offered by Crescent Capital was significantly lower than the two expressions of interest received from Sterling and Company C. FirstBank NW s special counsel discussed the process of conducting due diligence, the preparation of a definitive merger agreement, the disclosure requirements for the merger proxy statement and the timing of the transaction. Following consideration and discussion of the presentations and evaluations of the three proposals, the board determined that a committee should be established for the purpose of reviewing and suggesting revisions to the definitive merger agreement that would be prepared by the potential strategic partners, and action was taken to appoint Clyde E. Conklin, Larry K. Moxley, Steve R. Cox, Sandra T. Powell and Michael F. Reuling as the members of a Transaction Committee.

The FirstBank NW board determined that the Sterling proposal provided the best potential to maximize long-term shareholder value for several reasons, including:

The higher implied price of the Sterling offer.

The attractive relative valuation of Sterling s stock on a price to projected earnings basis when compared to Company C. As of May 8, 2006, the date when final indications of interest were reviewed, Sterling s stock had the lower price to earnings ratio of the two potential strategic partners based upon published 2007 mean earnings per share estimates at the time.

The existing operating and branch footprint of Sterling was closest to FirstBank NW s branch footprint as compared to the proposal from Company C, and the integration of FirstBank NW by Sterling was believed to present a lower degree of integration risk, a factor that could potentially have a material adverse impact on its strategic partner s stock price.

Based upon these factors, the board authorized FirstBank NW s management and Sandler O Neill to negotiate additional social and transaction issues and conduct additional due diligence review of Sterling, and for its special counsel to negotiate a definitive merger agreement.

On May 8 and May 9, 2006, Company C and Crescent Capital were each informed that FirstBank NW was not proceeding with their proposals at this time.

From May 9, 2006 through May 12, 2006, FirstBank NW and its representatives performed additional on-site due diligence on Sterling.

On May 11, 2006, FirstBank NW s special counsel participated in two conference calls with Crescent Capital s representatives for the purpose of Crescent Capital clarifying whether its proposal had been rejected by FirstBank NW, and if FirstBank NW had received a bona fide merger proposal from an acquiror. An inquiry was made by Crescent Capital as to whether FirstBank NW had a non-objecting beneficial owners (NOBO) list of shareholders. In response, FirstBank NW s special counsel indicated that a NOBO list had not been maintained by FirstBank NW for a number of years. Crescent Capital indicated that they had plans to nominate two individuals to the FirstBank NW board in connection with FirstBank NW s annual meeting in 2006 and they requested that FirstBank NW agree to notify them 60 days in advance of the meeting for the purpose of electing directors.

On May 12, 2006, Sterling s legal counsel delivered a draft of the merger agreement to FirstBank NW s special counsel. In a letter dated May 15, 2006, FirstBank NW agreed to provide Crescent Capital at least 60 days prior notice of the next FirstBank NW meeting of shareholders held for the purpose of electing directors unless the meeting was called in connection with a shareholder vote for the adoption of a bona fide merger proposal.

On May 18, 2006, the Transaction Committee held a meeting to review the initial draft of the merger agreement it had received from Sterling. FirstBank NW s special counsel gathered comments over the next several days from FirstBank NW, Sandler O Neill and RP Financial and on May 22, 2006, FirstBank NW s special counsel submitted these comments to Sterling s legal counsel for consideration. FirstBank NW and its representatives and Sterling and its representatives held a conference call on May 23, 2006 for the purpose of discussing the agreement. On May 23, 2006, the proposed combination was also further discussed by the Sterling Savings Bank board of directors at a regularly scheduled meeting.

On May 24, 2006, Sterling s legal counsel provided a revised draft of the merger agreement, including an initial draft of the voting agreement and affiliate letter, to FirstBank NW s special counsel. On May 27, 2006, the FirstBank NW Transaction Committee met to review these materials. FirstBank NW s special counsel again gathered comments over the next several days from FirstBank NW, Sandler O Neill and RP Financial.

On June 1, 2006, Sterling s legal counsel provided a revised draft of the merger agreement, including an initial draft of the articles of merger and revised drafts of the voting agreement and affiliate letter, to FirstBank NW s special counsel. On June 1, 2006, the FirstBank NW Transaction Committee met to review the revised draft of the agreement and plan of merger, voting agreement and affiliate letter. FirstBank NW s special counsel gathered comments from FirstBank NW, Sandler O Neill and RP Financial, and on June 1, 2006, FirstBank NW s special counsel submitted these comments to Sterling s legal counsel for consideration. Sterling s legal counsel produced a revised draft of the agreement and plan of merger for consideration by the FirstBank NW board of directors.

On June 4, 2006, the FirstBank NW board met with Sandler O Neill, RP Financial and FirstBank NW s special counsel. Prior to this meeting, the revised definitive agreement from Sterling and the fairness presentation were distributed to FirstBank NW s board for its review. FirstBank NW s special counsel reviewed the terms of the definitive agreement and other relevant documents and the contemplated transaction. RP Financial reviewed the fairness of the proposed transaction and delivered its oral opinion, which was subsequently confirmed in writing, that the merger consideration was fair, from a financial point of view, to the holders of FirstBank NW common stock. After a thorough discussion of the transaction, the FirstBank NW board voted unanimously to approve the definitive agreement and authorized the execution of the definitive agreement and related documents. The Sterling board of directors also met on June 4, 2006. Prior to the meeting, the revised definitive agreement and related materials had been distributed to Sterling s board for its review. During this meeting, Sterling s chief executive officer, chief financial officer and legal counsel summarized the material terms of the proposed transaction, and Sterling s chief executive officer led Sterling s board of directors in a discussion of the merits, risks and the strategic reasons for and against the transaction. After a thorough discussion, Sterling s board of directors unanimously approved the definitive merger agreement and other relevant documents and the contemplated transaction. At the conclusion of the arm s length negotiations between representatives of Sterling and FirstBank NW, and pursuant to the resolutions adopted by each company s board of directors, Sterling and FirstBank NW entered into the definitive agreement, dated as of June 4, 2006, and publicly announced entry into the definitive agreement in a joint press release dated June 5, 2006.

On June 16, 2006, FirstBank NW received a letter from Crescent Capital indicating that it was withdrawing its offer for the acquisition of all of the outstanding shares of FirstBank NW common stock.

Recommendation of the FirstBank NW Board of Directors and Reasons of FirstBank NW for the Merger

The FirstBank NW board of directors reviewed and discussed the proposed merger with management and its financial and legal advisors before it unanimously determined that the merger is in the best interests of FirstBank NW and the FirstBank NW shareholders. The board unanimously recommends that FirstBank NW shareholders vote for the approval of the merger agreement and the consummation of the transactions contemplated by that agreement.

Table of Contents

In reaching its determination to approve the merger agreement, the FirstBank NW board of directors considered a number of factors. The material factors that the FirstBank NW board of directors believes favor the merger include, but are not limited to, the following:

Growth Opportunities. The stock to be received as merger consideration offers FirstBank NW shareholders the opportunity to participate in the growth and opportunities of the combined company.

Future Prospects of FirstBank NW. Based on its understanding of the business, operations, financial condition, earnings, management and future prospects of FirstBank NW, the FirstBank NW board of directors believes that future earnings prospects will be stronger on a combined basis.

Future Prospects of Sterling. The FirstBank NW board s understanding of the business, operations, financial condition, earnings, management and future prospects of Sterling, taking into account FirstBank NW s due diligence investigation of Sterling, including, but not limited to, debt service and other existing financial obligations, the financial obligations to be incurred in connection with the proposed transaction and other likely financial obligations of Sterling and the possible effect of such obligations.

Competitive Issues. The current and prospective environment in which FirstBank NW and Sterling operate, including national, regional and local economic conditions, the competitive environment for financial institutions generally and the trend toward consolidation in the financial services industry.

Terms of the Merger. The review by the FirstBank NW board of directors with its legal and financial advisors of the structure of the merger and the financial and other terms of the merger agreement, including the exchange ratio and cash consideration offered by Sterling.

Complementary Business. The complementary nature of the respective markets, customers and asset/liability mix of FirstBank NW and Sterling.

Impact on Constituencies. The social and economic effects of the proposed transaction on FirstBank NW, its subsidiaries, employees, depositors, loan and other customers, creditors and other elements of the communities in which FirstBank NW and its subsidiaries operate or are located.

Financial Presentations. The reports of FirstBank NW s management and the financial presentation by RP Financial to the FirstBank NW board of directors concerning the operations, financial condition and prospects of Sterling and the expected financial impact of the merger on the combined company, including pro forma assets, earnings, deposits and other financial metrics.

Approvals. The likelihood of receiving regulatory approvals in a timely fashion and the likelihood that the merger would be completed.

Value. The value to be received by holders of FirstBank NW common stock pursuant to the merger agreement in relation to the historical trading prices of FirstBank NW common stock, as compared to other similar transactions of a comparable nature in the view of the board of directors financial advisors.

Fairness Opinion. The opinion delivered to the FirstBank NW board of directors by RP Financial that, as of the date of the opinion and based upon and subject to the considerations in its opinion, the merger consideration was fair, from a financial point of view, to holders of FirstBank NW common stock.

Increased Liquidity. The benefits of increased liquidity that FirstBank NW shareholders would have as shareholders of Sterling.

Products & Services. FirstBank NW customers would be afforded new or enhanced products and services not previously available. Examples of these enhancements include larger credit relationships, more advanced cash management services, a broader array of commercial real estate conduits, and all-in-one residential construction loans.

Corporate Values. The FirstBank NW board of directors belief that the two companies share a common vision of the importance of customer service and that management and employees of FirstBank NW and Sterling possess complementary skills and expertise.

Table of Contents

Reorganization. The expectation that the merger will constitute a reorganization under Section 368(a) of the Code.

In the course of its deliberations regarding the merger, the FirstBank NW board of directors also considered the following factors, which the board of directors determined did not outweigh the benefits to FirstBank NW and its shareholders expected to be generated by the merger:

Integration Issues. The challenges of combining the businesses, assets and workforces of FirstBank NW and Sterling, which could affect our post-merger success, and the ability to achieve anticipated cost savings and other potential synergies.

Fixed Exchange Ratio. The fixed exchange ratio component of the merger consideration will not adjust to compensate for potential declines in the stock price of Sterling or FirstBank NW prior to completion of the merger except under certain circumstances which would require that, among other things, Sterling s common stock decreases in value to a greater extent than a predetermined weighted average index of a certain group of financial institution holding companies specified in the merger agreement.

Insider Interests. The interests of FirstBank NW executive officers and directors with respect to the merger apart from their interests as holders of FirstBank NW common stock, and the risk that these interests might influence their decision with respect to the merger, as described below in The Merger Interests of Certain Persons in the Merger.

Competing Transaction. The risk that the terms of the merger agreement, including provisions relating to the payment of a termination fee under specified circumstances, although required by Sterling as a condition to its willingness to enter into a merger agreement, could have the effect of discouraging other parties that might be interested in a transaction with FirstBank NW from proposing such a transaction.

Operational Restrictions. The restrictions contained in the merger agreement on the operation of FirstBank NW s business during the period between the signing of the merger agreement and completion of the merger.

Risk of Termination. The possibility that the merger might not be completed and the effect of the resulting public announcement of the termination of the merger agreement on, among other things, the market price of FirstBank NW common stock and FirstBank NW operating results, particularly in light of the costs incurred in connection with the transaction.

The discussion of the information and factors considered by the FirstBank NW board of directors is not exhaustive, but includes all material factors considered by the board. In view of the wide variety of factors considered by the FirstBank NW board of directors in connection with its evaluation of the merger and the complexity of these matters, the board did not consider it practical to, nor did it attempt to, quantify, rank or otherwise assign relative weights to the specific factors that it considered in reaching its decision. The FirstBank NW board of directors evaluated the factors described above, including asking questions of management and its legal and financial advisors, and reached consensus that the merger was in the best interests of FirstBank NW and its shareholders. In considering the factors described above, individual members of the board may have given different weights to different factors. The FirstBank NW board of directors considered these factors as a whole, and overall considered them to be favorable to, and to support its determination. It should be noted that this explanation of the FirstBank NW board of directors reasoning and all other information presented in this section is forward-looking in nature and, therefore, should be read in light of the factors discussed under the section entitled Cautionary Statement Regarding Forward-Looking Statements.

After carefully evaluating the above factors, FirstBank NW s board of directors has determined that the merger, the merger agreement and the transactions contemplated thereby are advisable and in the best interests of FirstBank NW and its shareholders. The board of directors also determined that the merger agreement and the transactions contemplated thereby are consistent with, and in furtherance of, FirstBank NW s and its shareholders long-term best interests. Accordingly, FirstBank NW s board of directors unanimously approved the merger agreement and unanimously recommends that FirstBank NW shareholders vote FOR approval of the merger agreement.

Relationship of Sandler O Neill to FirstBank NW and Sterling

FirstBank NW has agreed to pay a fee to Sandler O Neill for its financial advisory services in connection with its strategic process of 0.75% of the aggregate consideration paid by Sterling, of which $311,235 has already been paid. The fee percentage may be reduced upon the occurrence of certain circumstances based upon the price per share to be received by the FirstBank NW shareholders. FirstBank NW also agreed to indemnify Sandler O Neill, its affiliates, directors, officers, agents, managers, members, attorneys, stockholders, employees and controlling persons against certain expenses and liabilities in connection with its engagement.

Sandler O Neill has in the past provided investment banking services to FirstBank NW and Sterling unrelated to the merger, for which it has received compensation. In the ordinary course of Sandler O Neill s business, Sandler O Neill and its affiliates may actively trade securities of FirstBank NW and Sterling for their own and for the accounts of customers, and may, therefore, at any time hold a long or short position in such securities.

Opinion of FirstBank NW s Financial Advisor

FirstBank NW retained RP Financial in February 2006 to provide certain strategic planning and financial advisory services in connection with FirstBank NW s strategic planning activities, specifically with respect to: (i) evaluating FirstBank NW s internal strategic plan and projected financial results as an independent institution, including the estimated value of such strategies for shareholders; (ii) determining the value of FirstBank NW s common stock pursuant to a change of control; (iii) evaluating prospective merger proposals that might be received by FirstBank NW, including the prospective acquirer s ability to pay and the financial and market impact (including pro forma analyses) and the pro forma business plan and outlook of the merged company; and (iv) should FirstBank NW enter into an agreement to merge or be acquired, rendering a fairness opinion with respect to the merger consideration to be received by FirstBank NW shareholders in such transaction. In engaging RP Financial for these services and requesting RP Financial s opinion as to the fairness of the merger consideration to be received, the FirstBank NW Board did not give any special instructions to RP Financial, nor did it impose any limitations upon the scope of the investigation that RP Financial wished to conduct to enable it to give its opinion. RP Financial has delivered to FirstBank NW its written opinion, dated June 4, 2006, and its updated opinion dated as of the date of this proxy statement/prospectus, to the effect that, based upon and subject to the matters set forth therein, as of those dates, the merger consideration to be received in connection with the merger with Sterling was fair to the FirstBank NW shareholders from a financial point of view. The opinion of RP Financial is directed toward the consideration to be received by FirstBank NW shareholders and does not constitute a recommendation to any FirstBank NW shareholder to vote in favor of approval of the merger agreement. A copy of the RP Financial opinion is set forth as Appendix B to this proxy statement/prospectus, and FirstBank NW shareholders should read it in its entirety. RP Financial has consented to the inclusion and description of its written opinion in this proxy statement/prospectus.

RP Financial has represented FirstBank NW in a number of engagements since 1997, including: (i) preparing the appraisal and business plan for FirstBank NW s initial public offering in 1997 in connection with its mutual-to-stock conversion; (ii) preparing the business plan and providing purchase accounting valuation services with respect to FirstBank NW s 2003 acquisition of Oregon Trail Financial Corp.; (iii) strategic planning and merger advisory services in connection with the evaluation of an unsolicited offer to acquire FirstBank NW in the fall of 2005; (iv) certain consulting services in connection with FirstBank NW s stock split in early 2006; (v) certain consulting services with respect to increasing FirstBank NW s public profile, including preparation of a draft investor presentation; and (vi) certain preliminary financial advisory services pertaining to the February 1, 2006 unsolicited proposal from

Crescent Capital IV, L.L.P. RP Financial received $112,650 in professional fees from FirstBank NW prior to its February 2006 engagement.

RP Financial was selected by FirstBank NW to provide financial advisory services because of RP Financial s expertise in the valuation of businesses and their securities for a variety of purposes, including its expertise in connection with mergers and acquisitions of financial institutions and their holding companies, including such transactions in the western and northwestern region of the United States and the state of Washington. Pursuant to a letter agreement dated February 17, 2006, and executed by FirstBank NW on February 22, 2006 (the Engagement Letter), RP Financial estimates that it will receive from FirstBank NW total professional fees of approximately $150,000, of which $90,000 has been paid to date, plus reimbursement of certain out-of-pocket expenses, for its fairness opinion services in connection with the merger.

In addition, FirstBank NW agreed to indemnify and hold harmless RP Financial, any affiliates of RP Financial, and the respective directors, officers, agents and employees of RP Financial or their successors and assigns who act for or on behalf of RP Financial in connection with the services called for under the Engagement Letter, from and against any and all losses, claims, damages and liabilities, including, but not limited to, all losses and expenses in connection with claims under the federal securities laws, actually incurred by RP Financial and attributable to: (i) any untrue statement of a material fact contained in the financial statements or other information furnished or otherwise provided by an authorized officer of FirstBank NW to RP Financial; (ii) the omission of a material fact from the financial statements or other information furnished or otherwise made available by an authorized officer of FirstBank NW to RP Financial; or (iii) any action or omission to act by FirstBank NW, or FirstBank NW s respective officers, directors, employees or agents, which action or omission is willful. Notwithstanding the foregoing, FirstBank NW is under no obligation to indemnify RP Financial hereunder if a court determines that RP Financial was negligent or acted in bad faith or willfully with respect to any actions or omissions of RP Financial related to a matter for which indemnification is sought.

In rendering its opinion, RP Financial reviewed the following material and/or conducted the following analyses:

- the merger agreement, as reviewed and approved by the FirstBank NW board and executed by FirstBank NW on June 4, 2006, including exhibits;

- the following information for FirstBank NW and/or FirstBank Northwest: (i) the annual audited financial statements for the fiscal years ended March 31, 2003, 2004 and 2005 included in the Annual Reports for the respective years; (ii) the annual shareholder proxy statements for the last three fiscal years; (iii) other securities filings; (iv) shareholder, regulatory and internal financial and other reports through March 31, 2006; and (v) the stock price history for the last three years and the current market pricing characteristics;

- the following information for Sterling, including its subsidiaries: (i) the annual audited financial statements for the fiscal years ended December 31, 2003, 2004 and 2005, included in the Annual Reports for the respective years; (ii) the annual shareholder proxy statements for the last three fiscal years; (iii) other securities filings; (iv) shareholder, regulatory and internal financial and other reports through March 31, 2006; (v) investor presentations prepared by Sterling over the last three years and for 2006 to date; (vi) recent research reports prepared by various broker-dealers that follow Sterling; and (vii) the stock price history for the last three years and the current market pricing characteristics;

- discussions with management of FirstBank NW and Sterling regarding the past and current business, operations, financial condition, and future prospects for both institutions individually and on a merged basis;

- an analysis of the pro forma value of alternative strategies for FirstBank NW as an independent institution;

- the financial and market pricing characteristics of FirstBank NW and Sterling relative to other regionally-based financial institutions that are publicly traded;

the competitive, economic and demographic characteristics nationally, regionally and in the local market area;

the potential impact of regulatory and legislative changes on financial institutions;

the financial terms of other recently completed and pending acquisitions of regionally-based banks and thrifts with similar characteristics as FirstBank NW;

Sterling s financial condition as of March 31, 2006 relative to its expected financial ability to complete the merger from a cash and capital perspective;

the estimated pro forma financial impact of the merger to Sterling, including the pro forma per share data and the pro forma pricing ratios based on Sterling s recent market prices, taking into consideration the potential merger adjustments and synergies as determined by Sterling and discussed with FirstBank NW;

the estimated pro forma impact of pending acquisitions by Sterling;

the prospective strategic benefits of the merger to FirstBank NW, including, but not limited to, expanded market area, enhanced delivery channels, broadened products and services, increased stock liquidity, expanded management team, the opportunity to realize cost reductions and increased platform for future expansion; and,

the termination and walk-away provisions of the merger agreement.

In rendering its opinion, RP Financial relied, without independent verification, on the accuracy and completeness of the information concerning FirstBank NW and Sterling furnished by the respective institutions to RP Financial for review for purposes of its opinion, as well as publicly-available information regarding other financial institutions and competitive, economic and demographic data. RP Financial further relied on the assurances of management of Sterling and FirstBank NW that they were not aware of any facts or circumstances that would make any of such information inaccurate or misleading. RP Financial was not asked to, and did not, undertake an independent verification of any of such information and did not assume any such responsibility or liability for the accuracy or completeness thereof. FirstBank NW and Sterling did not restrict RP Financial as to the material it was permitted to review. RP Financial did not perform or obtain any independent appraisals or evaluations of the assets and liabilities, the collateral securing the assets or the liabilities (contingent or otherwise) of Sterling or FirstBank NW or the collectability of any such assets, nor was RP Financial furnished with any such evaluations or appraisals. RP Financial did not make an independent evaluation of the adequacy of the allowance for loan losses of Sterling or FirstBank NW nor did RP Financial review any individual credit files relating to Sterling or FirstBank NW. RP Financial assumed, with FirstBank NW s and Sterling s consent, that the respective allowances for loan losses for both Sterling and FirstBank NW were adequate to cover such losses and would be adequate on a pro forma basis for the combined entity.

With respect to such estimates and projections of transaction costs, purchase accounting adjustments, expected cost savings and other synergies and other information prepared by and/or reviewed with Sterling s management and used by RP Financial in its analyses, RP Financial assumed, with Sterling s consent, that such estimates reflected the best currently available estimates and judgments of Sterling s management of the respective future financial performances of Sterling and FirstBank NW, and RP Financial assumed that such performances would be achieved. RP Financial expressed no opinion as to such estimates or projections or the assumptions on which they are based.

RP Financial, with FirstBank NW s consent, has relied upon the advice FirstBank NW received from its legal, accounting and tax advisors as to all legal, accounting and tax matters relating to the merger and other transactions contemplated by the merger agreement. In rendering its opinion, RP Financial assumed that, in the course of obtaining the necessary regulatory and governmental approvals for the proposed merger, no restriction would be imposed on

Sterling that would have a material adverse effect on the ability of the merger to be consummated as set forth in the merger agreement. RP Financial also assumed that there was no material change in Sterling s or FirstBank NW s assets, financial condition, results of operations, business or prospects since the date of the most recent financial statements made available to RP Financial. RP Financial assumed in all respects material to the analyses, that all of the representations and warranties contained in the merger

Table of Contents

agreement and all related agreements are true and correct, that each party to such agreements will perform all of the covenants required to be performed by such party under such agreements and that the conditions precedent in the merger agreement are not waived.

RP Financial s opinion was based solely upon the information available to it and the economic, market and other circumstances as they existed as of June 4, 2006, and as of the date of this proxy statement/prospectus. Events occurring after the most recent date could materially affect the assumptions used in preparing the opinion. In connection with rendering its opinion dated June 4, 2006, and updated as of the date of this proxy statement/prospectus, RP Financial performed a variety of financial analyses that are summarized below. Although the evaluation of the fairness, from a financial point of view, of the merger consideration was to some extent subjective based on the experience and judgment of RP Financial and not merely the result of mathematical analyses of financial data, RP Financial relied, in part, on the financial analyses summarized below in its determinations. The preparation of a fairness opinion is a complex process and is not necessarily susceptible to partial analyses or summary description. RP Financial believes its analyses must be considered as a whole and that selecting portions of such analyses and factors considered by RP Financial without considering all such analyses and factors could create an incomplete view of the process underlying RP Financial s opinion. In its analyses, RP Financial took into account its assessment of general business, market, monetary, financial and economic conditions, industry performance and other matters, many of which are beyond the control of FirstBank NW and Sterling, as well as RP Financial s experience in securities valuation, its knowledge of financial institutions, and its experience in similar transactions. With respect to the comparable transactions analysis described below, no public company utilized as a comparison is identical to FirstBank NW and such analyses necessarily involve complex considerations and judgments concerning the differences in financial and operating characteristics of the companies and other factors that could affect the acquisition values of the companies concerned. The analyses were prepared solely for purposes of RP Financial providing its opinion as to the fairness of the merger consideration, and they do not purport to be appraisals or necessarily reflect the prices at which businesses or securities actually may be sold. Any estimates contained in RP Financial s analyses are not necessarily indicative of future results of values, which may be significantly more or less favorable than such estimates. None of the analyses performed by RP Financial were assigned a greater significance by RP Financial than any other.

Comparable Transactions Analysis. RP Financial compared the merger on the basis of the multiples or ratios of reported earnings, book value, tangible book value, assets, tangible book premium to core deposits, and control premium relative to the pre-announcement trading price of FirstBank NW with the same multiples or ratios of four groups of selected comparable completed and pending bank and/or thrift mergers and acquisitions. These four groups included:

(1) all acquisitions of commercial banks and bank holding companies and savings institutions and thrift holding companies in the western or northwestern United States, with assets between $250 million and $2.0 billion that were announced between January 1, 2001 and June 1, 2006, but excluding mergers of equals transactions and those deals with limited or no available deal data (Regional Bank and Thrift Group);

(2) all acquisitions of commercial banks and bank holding companies in the western or northwestern United States with assets between $250 million and $2.0 billion that were announced between January 1, 2001 and June 1, 2006, but excluding mergers of equals transactions and those deals with limited or no available deal data (Regional Bank Group);

(3) all acquisitions of savings institutions and thrift holding companies in the western or northwestern United States with assets between $250 million and $2.0 billion that were announced between January 1, 2001 and June 1, 2006, but excluding mergers of equals transactions and those deals with limited or no available deal data (Regional Thrift Group); and,

(4) all acquisitions of rural commercial banks and bank holding companies and savings institutions and thrift holding companies in the western or northwestern United States with assets between $250 million and $2.0 billion that were announced between January 1, 2001 and June 1, 2006, but excluding

Table of Contents

mergers of equals transactions and those deals with limited or no available deal data (Rural Bank and Thrift Group).

RP Financial evaluated selected financial data immediately prior to the acquisition announcement and acquisition pricing multiples or ratios at announcement for the acquisition targets included in the four selected peer groups and compared that data relative to the FirstBank NW financial data and pricing multiples or ratios at acquisition announcement based on the proposed merger with Sterling, as shown below. In conducting these comparative analyses, RP Financial considered the average, median, high and low data points of the four groups to FirstBank NW.

	FirstBank NW at Announcement	Regional Bank & Thrift Group(1)		Regional Bank Group(2)		Regional Thrift Group(3)		Rural B Thrift G
		Average	Median	Average	Median	Average	Median	Average
racteristics(5)								
	$846.0	$722.6	$592.7	$667.6	$563.4	$926.0	$783.4	$775.4
ity/Assets (%)	7.29%	8.65%	8.38%	8.13%	8.03%	10.56%	10.69%	7.05%
erage	1.03%	1.27%	1.22%	1.30%	1.28%	1.17%	1.08%	0.97%
erage	11.16%	14.44%	14.37%	15.41%	14.82%	10.84%	9.64%	12.24%
tio (%)	62.5%	58.1%	57.3%	58.7%	57.4%	56.1%	55.4%	64.8%
g Ratios ement)								
s (x)(6)	19.3x	19.8x	19.0x	19.9x	19.2x	19.4x	17.6x	18.2x
%)	207.8%	237.8%	230.0%	257.8%	257.6%	163.7%	158.7%	213.1%
e Book (%)	272.7%	257.3%	256.4%	279.4%	267.2%	175.6%	168.5%	231.0%
%)	20.0%	21.9%	22.0%	22.7%	23.2%	18.7%	20.1%	16.9%
k e Deposits (%)	23.2%	26.1%	21.4%	28.4%	21.5%	17.9%	15.2%	16.2%
ium (%)(7)	31.5%	26.2%	22.2%	27.2%	22.3%	21.4%	21.9%	20.4%

(1) 38 completed and 11 pending deals, for a total of 47 deals.

(2) 28 completed and 9 pending deals, for a total of 37 deals.

(3) 8 completed and 2 pending deals, for a total of 10 deals.

(4) 6 completed and 1 pending deal, for a total of 7 deals.

(5) Reflects financial data as of or for the trailing 12 months ended prior to the merger announcement.

(6) Reflects earnings for the trailing 12 months prior to the merger announcement.

(7) Merger price relative to trading price 5 days prior to merger announcement.

Note: Pricing ratios are based on per share data, not fully diluted for equivalents.

Source: SNL Financial, LC.

In comparison to the four groups, FirstBank NW: (i) maintained a higher level of assets than the average and median of all groups except the average for the Regional Thrift Group; (ii) maintained a lower ratio of tangible equity to assets than all groups except the average for the Rural Bank and Thrift Group; (iii) maintained lower profitability relative to average assets than all four groups except the average for the Rural Bank and Thrift Group; (iv) maintained lower profitability relative to average equity except the average and median for the Regional Thrift Group; and (v) maintained a less favorable efficiency ratio except the average and median for the Rural Bank and Thrift Group. In each case, FirstBank NW s financial ratios fell within the range of ratios of each of the banks and thrifts included in the four groups. FirstBank NW s merger pricing ratio relative to trailing 12-month earnings through March 31, 2006 was below the average price/earnings ratio for all groups except the average of the Rural Bank and Thrift Group and above the median price/earnings ratio for all groups. FirstBank NW s merger pricing ratio relative to book value was above the average and median of the Regional Thrift Group and below the averages and medians of the other three groups. FirstBank NW s merger pricing ratio on a tangible book value basis was above the average and median pricing ratios of all peer groups except for the average of the Regional Bank Group. FirstBank NW s

Table of Contents

merger pricing ratio relative to assets exceeded the Regional Thrift Group average and the Rural Bank and Thrift Group average and median, and fell below the other groups averages and medians. FirstBank NW s merger pricing ratio on a tangible book value premium/core deposits basis was above the averages and medians except the Regional Bank and Thrift Group Average and the Regional Bank Group Average. FirstBank NW s merger control premium, based on the trading price five days before announcement, exceeded the control premium averages and medians of all the groups. In each case, FirstBank NW s merger pricing ratios fell within the range of ratios of each of the banks and thrifts included in the four groups.

Discounted Cash Flow (DCF) Analysis. Using the DCF analysis, RP Financial estimated the present value per share of future dividends and the terminal value to FirstBank NW s current shareholders based on a continuation of FirstBank NW s current operating strategy over a five-year period. Two financial projection scenarios were analyzed, including a base case scenario based on the current environment and a conservative scenario assuming a slowing economy. Terminal values were determined by applying the price/earnings and price/tangible book pricing ratios of three of the four groups utilized in the comparable transaction approach, excluding only the Rural Bank and Thrift Group given the similarity of this data to the other groups. In determining the terminal values, RP Financial gave two-thirds weight to the price/earnings approach and one-third weight to the price/tangible book approach. RP Financial incorporated the following financial projection assumptions into the DCF analyses, based on FirstBank NW s strategic planning and financial simulations for fiscal years 2006, 2007 and 2008. RP Financial made estimates for 2009 and 2010 based on the prior three years based on FirstBank NW s strategic planning and financial simulations:

Annual asset growth of approximately 7% to 8% for the base case scenario and 5% to 6% for the conservative scenario;

Return-on-average assets ranging from 1.25% to 1.33% for the base case scenario and 1.15% to 1.26% for the conservative scenario;

A constant annual dividend payout of $2.44 million for all five years in both scenarios, resulting in payout ratios ranging from 18% to 25% for the base case scenario and 23% to 27% for the conservative scenario**;**

Fifth-year terminal value multipliers for earnings per share ranging from 17.6 times to 19.2 times, and fifth-year terminal value multipliers for tangible book value of 1.69 times to 2.67 times, with 67% weight given to the earnings multiplier and 33% weight given to the tangible book value multiplier. Such terminal value multipliers were derived from the median data for the Regional Bank and Thrift Group, the Regional Bank Group and the Regional Thrift Group incorporated in the comparable transactions approach.

The cash flows for all scenarios were then discounted to present value using two discount rates, a low of 10.5% (based on the Capital Asset Pricing Model) and a high of 12.5% (based on data from Ibbotson Associates for the approximate return generated over the long term by small capitalization stocks).

In applying these assumptions, RP Financial also considered the following:

FirstBank NW s recent historical asset growth rate and the projected growth rate incorporated into the internal budget for 2006;

FirstBank NW s recent profitability and the internal budget for 2006; and

FirstBank NW s dividend policy.

The FirstBank NW merger consideration of $27.16 per share at announcement falls in the upper range in the base case scenario and above the range of the present values in the conservative scenario as determined by these DCF analyses. Specifically, the present values in the base case scenario ranged from $21.43 to $28.34 per share, and the present values ranged from $18.19 to $24.23 per share in the conservative scenario.

Pro Forma Impact Analysis. Since the merger consideration consists primarily of stock, RP Financial considered the estimated pro forma impact of the merger on Sterling s financial condition, operating results and stock pricing ratios. Specifically, RP Financial considered that the merger is anticipated to:

- be marginally accretive to Sterling s pro forma earnings per share within the first year of completing the merger, incorporating certain anticipated merger synergies;
- increase Sterling s market capitalization and shares outstanding; and
- increase Sterling s stock liquidity.

Furthermore, RP Financial considered the increased size and competitive profile of Sterling on a pro forma basis, as well as the expanded geographic footprint and elimination of a competitor, and that there are a number of potential closings of overlapping branches. RP Financial considered the pro forma impact of the merger on Sterling s per share data and pricing ratios based on Sterling s pre-announcement trading price relative to other publicly-traded financially comparable banks in the western and northwestern United States. RP Financial also took into account Sterling s strategic objectives following the merger, including additional growth and capital offerings. RP Financial also considered other benefits of the merger, including the potential for increased liquidity of the stock for FirstBank NW shareholders given Sterling s larger size, greater market capitalization and higher number of shares outstanding, the enhanced ability to pursue growth within the expanded market area, enhanced products and services and delivery systems for customers, and expanded management team. In comparing the pro forma impact of the merger, RP Financial also took into consideration that following the merger, FirstBank NW shareholders will hold stock in a larger, more actively traded commercial bank holding company, and, on a pro forma basis, FirstBank NW shareholders will own approximately 11% of the common stock in Sterling.

As described above, RP Financial s opinion and presentation to the FirstBank NW board of directors was one of many factors taken into consideration by the FirstBank NW board in making its determination to approve the merger agreement. Although the foregoing summary describes the material components of the analyses presented by RP Financial to the board of directors of FirstBank NW on June 4, 2006, and updated as of the date of this proxy statement/prospectus in connection with its opinion as of those dates, it does not purport to be a complete description of all the analyses performed by RP Financial and is qualified by reference to the written opinion of RP Financial included as Appendix B, which FirstBank NW shareholders are urged to read in its entirety.

Consideration to be Received in the Merger

At the effective time of the merger, Sterling will issue 0.7890 shares of Sterling common stock and $2.55 in cash for each outstanding share of FirstBank NW common stock, provided, however, that the maximum number of shares of Sterling common stock that may be issued shall be 4,991,563. A FirstBank NW shareholder may also receive cash in lieu of a fractional share of common stock of Sterling. Except for the shares to be received by certain FirstBank NW affiliates, which will have certain sale restrictions as described below in The Merger Restrictions on Resales by Affiliates, the Sterling shares of common stock received by FirstBank NW shareholders will be unrestricted publicly tradable shares.

Conversion of Shares; Exchange of Certificates; Elections as to Form of Consideration

As soon as reasonably practicable after the effective time of the merger, each holder of a certificate formerly representing shares of FirstBank NW common stock who surrenders the certificate, and upon receipt and acceptance of the certificate together with duly executed transmittal materials by American Stock Transfer & Trust Company, as exchange agent, shall be entitled to a certificate representing Sterling common stock and cash as merger consideration.

Reasons of Sterling for the Merger

The merger will enable Sterling to expand and strengthen its community banking presence in the Pacific Northwest. During its deliberation regarding the approval of the merger agreement, the board of directors of Sterling considered a number of factors, including, but not limited to, the following:

- FirstBank NW s strong existing customer base and reputation for providing quality customer service;
- the compatibility of the merger with Sterling s long-term community banking strategy;
- FirstBank Northwest s branch locations in Idaho, Washington and Oregon complement Sterling s existing footprint;
- the ability of the combined company to offer a broader array of products and services to FirstBank NW s customers;
- FirstBank NW s financial performance is expected to make the transaction accretive to earnings in 2007;
- potential opportunities to reduce operating costs and enhance revenue; and
- Sterling management s prior record of integrating acquired financial institutions.

Sterling based these assumptions on its present assessment of where savings could be realized based upon the present independent operations of FirstBank NW. Actual savings in some or all of these areas could be higher or lower than currently expected.

In reaching its decision to approve the merger agreement, Sterling s board of directors also considered the risks associated with the transaction, and, after due consideration, concluded that the potential benefits of the proposed transaction outweighed the risks associated with the proposed transaction.

The foregoing information and factors considered by Sterling s board of directors are not intended to be exhaustive. In view of the variety of factors and the amount of information considered, Sterling s board of directors did not find it practicable to, and did not, quantify, rank or otherwise assign relative weights to the specific factors it considered in approving the transaction. In addition, individual members of Sterling s board of directors may have given different weights to different factors. Sterling s board of directors considered all of these factors as a whole, and overall considered them to be favorable to and to support its determination.

Regulatory Approvals Required for the Merger

The closing of the merger is conditioned upon the receipt of all approvals of regulatory authorities required for the merger. Under the terms of the merger agreement, Sterling and FirstBank NW have agreed to use their reasonable best efforts to obtain all necessary permits, consents, approvals and authorizations from any governmental authority necessary, proper or advisable to consummate the merger.

The merger of Sterling and FirstBank NW is subject to prior approval by the Federal Reserve Board under the Bank Holding Company Act of 1956, as amended, or the BHCA. 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].

Material United States Federal Income Tax Considerations of the Merger

The following is a discussion of the anticipated material U.S. federal income tax consequences of the merger to U.S. holders (as defined below) of shares of FirstBank NW common stock who exchange such shares for cash and shares of Sterling common stock in the merger. This discussion addresses only those holders who hold their shares of FirstBank NW common stock as capital assets. This discussion does not

Table of Contents

address all of the U.S. federal income tax consequences that may be relevant to particular holders in light of their individual circumstances or to holders who are subject to special rules, such as, without limitation:

a partnership, subchapter S corporation or other pass-through entity;

a foreign person, foreign entity or U.S. expatriate;

a mutual fund, bank, thrift or other financial institution;

a tax-exempt organization or pension fund;

an insurance company;

a trader in securities that elects mark-to-market;

a dealer in securities or foreign currencies;

a person who received his or her shares of FirstBank NW common stock through a benefit plan or a tax-qualified retirement plan or through the exercise of employee stock options or similar derivative securities or otherwise as compensation;

a person who may be subject to the alternative minimum tax provisions of the Code;

a person whose functional currency is not the U.S. dollar;

a person who exercises dissenters rights; and

a person who holds FirstBank NW common stock as part of a hedge, appreciated financial position, straddle, synthetic security, conversion transaction or other integrated investment.

The following discussion is based on the Code, applicable Treasury regulations, administrative interpretations and court decisions, each as in effect as of the date of this proxy statement/prospectus and all of which are subject to change, possibly with retroactive effect. It is not binding on the Internal Revenue Service, referred to as the IRS. In addition, this discussion does not address any tax consequences arising under the laws of any state, locality or foreign jurisdiction.

For purposes of this discussion, the term U.S. holder means a beneficial owner of FirstBank NW common stock that is:

a U.S. citizen or resident, as determined for federal income tax purposes;

a corporation, or entity taxable as a corporation, created or organized in or under the laws of the United States; or

otherwise subject to U.S. federal income tax on a net income basis.

Holders of FirstBank NW common stock should consult their own tax advisors as to the specific tax consequences to them of the merger in light of their particular circumstances, including the applicability and effect of the alternative minimum tax and any state, local, foreign and other tax laws and of changes in those

laws.

In the opinion of Witherspoon, Kelley, Davenport & Toole, P.S., counsel to Sterling, and Silver, Freedman & Taff, L.L.P., special counsel to FirstBank NW, the merger will qualify as a reorganization within the meaning of Section 368(a) of the Code and each of Sterling and FirstBank NW will be a party to the reorganization within the meaning of Section 368(b) of the Code. The resulting tax consequences, subject to the reservations noted above, are as follows:

Exchange of FirstBank NW Common Stock for Sterling Common Stock and Cash.

a U.S. holder who receives part cash and part Sterling common stock in exchange for shares of FirstBank NW 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 by such holder (excluding cash received in lieu of a fractional share, which would be taxed as discussed

Table of Contents

below) over that holder s adjusted tax basis in the FirstBank NW common stock exchanged in the merger; or (ii) the amount of cash received by the such holder in the merger (excluding cash received in lieu of fractional shares, which will be taxed as discussed below);

the gain recognized by a U.S. holder of FirstBank NW common stock in the merger generally will constitute capital gain, unless, as discussed below, the holder s receipt of cash has the effect of a distribution of a dividend for U.S. federal income tax purposes, in which case the gain will be treated as ordinary dividend income to the extent of the holder s ratable share of current and accumulated earnings and profits as calculated for U.S. federal income tax purposes;

for a U.S. holder who acquired different blocks of FirstBank NW common stock at different times and at different prices, realized gain or loss for purposes of determining the recognized gain, if any, generally must be calculated separately for each identifiable block of shares exchanged in the merger;

any capital gain recognized by a U.S. holder of FirstBank NW common stock generally will constitute long-term capital gain (taxed at a maximum federal rate of 15% in the case of an individual) if the holder s holding period for the FirstBank NW common stock exchanged in the merger is more than one year as of the date of the merger, and otherwise will constitute short-term capital gain;

the aggregate tax basis of the shares of Sterling common stock received by a U.S. holder in exchange for FirstBank NW common stock in the merger will be the same as the aggregate tax basis of the holder s FirstBank NW common stock exchanged therefor (less any tax basis attributable to a fractional share for which cash is received), decreased by the amount of cash received by such holder in the merger (excluding any cash received in lieu of a fractional share) and increased by the amount of gain recognized by the holder in the merger (including any portion of the gain that is treated as a dividend and excluding any gain recognized as a result of cash received in lieu of a fractional share); and

the holding period of the shares of Sterling common stock received in the merger generally will include the holding period for the shares of FirstBank NW common stock exchanged in the merger.

Potential Treatment of Cash as a Dividend.

In general, the determination of whether gain recognized by a U.S. holder of FirstBank NW common stock will be treated as capital gain or a dividend distribution will depend upon whether, and to what extent, the merger reduces such holder s deemed percentage stock ownership interest in Sterling. For purposes of this determination, a U.S. holder of FirstBank NW common stock will be treated as if it first exchanged all of the shareholder s FirstBank NW common stock solely for Sterling common stock (instead of the combination of Sterling common stock and cash actually received) and then Sterling immediately redeemed a portion of that Sterling common stock in exchange for the cash the holder received in the merger. The gain recognized by such holder by the deemed redemption will be treated as capital gain if, with respect to the holder, the deemed redemption is substantially disproportionate or not essentially equivalent to a dividend.

In general, the deemed redemption will be substantially disproportionate with respect to a U.S. holder of FirstBank NW common stock if the percentage described in (ii) below is less than 80% of the percentage described in (i) below. Whether the deemed redemption is not essentially equivalent to a dividend with respect to a U.S. holder of FirstBank NW common stock will depend on the shareholder s particular circumstances. In order for the deemed redemption to be not essentially equivalent to a dividend, the deemed redemption must result in a meaningful reduction in such holder s deemed percentage stock ownership of Sterling common stock. In general, that determination requires a comparison of (i) the percentage of the outstanding voting stock of Sterling that the U.S. holder of FirstBank NW common stock is deemed actually and constructively to have owned immediately before the deemed redemption by Sterling and (ii) the percentage of the outstanding voting stock of Sterling actually and constructively owned by such holder immediately after the deemed redemption by Sterling. In applying the foregoing tests, a U.S. holder of FirstBank NW common stock may, under constructive ownership rules, be deemed to own stock in addition to stock actually owned by it, including stock owned by other persons and stock subject to an option held by such holder or by other persons. Because the constructive ownership rules are complex, each U.S. holder of

Table of Contents

FirstBank NW common stock should consult his or her own tax advisor as to the applicability of these rules. The IRS has indicated that a minority shareholder in a publicly traded corporation whose relative stock interest is minimal and who exercises no control with respect to corporate affairs is considered to have a meaningful reduction if that shareholder has any reduction in its percentage stock ownership under the foregoing analysis.

Cash Received in Lieu of a Fractional Share.

To the extent that a FirstBank NW shareholder receives cash in lieu of a fractional share of common stock of Sterling, the shareholder will be deemed to have received that fractional share in the merger and then to have received the cash in redemption of that fractional share. The shareholder generally will recognize gain or loss equal to the difference between the cash received and the portion of the shareholder s tax basis in the shares of FirstBank NW common stock surrendered allocable to that fractional share. This gain or loss generally will be long-term capital gain or loss if the holding period for the applicable share of FirstBank NW common stock is more than one year as of the date of the merger.

Backup Withholding.

Cash payments received in the merger by a U.S. holder may, under certain circumstances, be subject to information reporting and backup withholding at a rate of 28% of the cash payable to the holder, unless the holder provides proof of an applicable exemption or furnishes its taxpayer identification number, and otherwise complies with all applicable requirements of the backup withholding rules. Any amounts withheld from payments to a holder under the backup withholding rules are not additional tax and will be allowed as a refund or a credit against the U.S. holder s U.S. federal income tax liability, provided the required information is timely furnished to the IRS.

Reporting Requirements.

A FirstBank NW shareholder will be required to retain records pertaining to the merger and will be required to file with the shareholder s U.S. federal income tax return for the year in which the merger takes place a statement setting forth certain facts relating to the merger.

TAX MATTERS REGARDING THE MERGER ARE VERY COMPLICATED, AND THE TAX CONSEQUENCES OF THE MERGER TO ANY PARTICULAR FIRSTBANK NW SHAREHOLDER WILL DEPEND ON THAT SHAREHOLDER S PARTICULAR SITUATION. FIRSTBANK NW SHAREHOLDERS ARE STRONGLY URGED TO CONSULT THEIR OWN TAX ADVISORS REGARDING THE SPECIFIC TAX CONSEQUENCES OF THE MERGER, INCLUDING TAX RETURN REPORTING REQUIREMENTS, THE APPLICABILITY OF FEDERAL, STATE, LOCAL AND FOREIGN TAX LAWS AND THE EFFECT OF ANY PROPOSED CHANGE IN THE TAX LAWS TO THEM.

Accounting Treatment

The costs related to the merger are expected to be approximately $13.5 million and the merger will be accounted for as a purchase for financial accounting purposes in accordance with accounting principles generally accepted in the United States. For purposes of preparing Sterling s consolidated financial statements, Sterling will establish a new accounting basis for FirstBank NW s assets and liabilities based upon their fair values, the merger consideration and the costs of the merger as of the acquisition date. Sterling will record any excess of cost over the fair value of the net assets, including any intangible assets with definite lives, of FirstBank NW as goodwill. A final determination of the intangible asset values and required purchase accounting adjustments, including the allocation of the purchase price to the assets acquired and liabilities assumed based on their respective fair values, has not yet been made. Sterling will determine the fair value of FirstBank NW s assets and liabilities and will make appropriate purchase accounting adjustments including the calculation of any intangible assets with definite lives, upon completion of the acquisition. Goodwill will be periodically reviewed for impairment. Other intangible assets will be amortized against the combined company s earnings following completion of the merger.

Interests of Certain Persons in the Merger

In considering the recommendation of the FirstBank NW board of directors, you should be aware that some members of FirstBank NW management have certain interests in the transactions contemplated by the merger agreement, as described below, that are different from or in addition to the interests of shareholders generally and that may create potential conflicts of interest. The FirstBank NW board of directors was aware of these interests and considered them, among other matters, in approving the merger agreement and the transactions contemplated thereby.

Board of Directors.

The merger agreement provides that Sterling shall appoint one member of FirstBank NW s board of directors, selected by Sterling, to Sterling s board of directors. All other FirstBank NW directors may serve as an advisory board member to Sterling for at least one year.

Stock Ownership.

At the date hereof, the directors and executive officers of FirstBank NW, together with their affiliates, beneficially owned (assuming the exercise of their outstanding options) a total of 761,070 shares of FirstBank NW common stock, including options exercisable within 60 days of the record date representing 12.1% of all outstanding shares of FirstBank NW common stock The directors and executive officers of FirstBank NW will receive the same consideration in the merger for their shares as the other shareholders of FirstBank NW, plus Sterling common stock with respect to their options.