

STERLING FINANCIAL CORP /WA/
Form S-4
September 15, 2003

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As filed with the Securities and Exchange Commission on September 15, 2003.

Registration No. 333-

UNITED STATES 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
(State or other jurisdiction of
incorporation or organization)

6719
(Primary Standard Industrial
Classification Code Number)
111 North Wall Street
Spokane, Washington 99201
(509) 458-2711

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

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

Ned M. Barnes, Secretary
Sterling Financial Corporation
111 North Wall Street
Spokane, Washington 99201
(509) 458-2884

(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies of communications to:

Donald J. Lukes, 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 proposed sale of the securities to public: As soon as practicable after the effective date of this registration statement and the satisfaction or waiver of all other conditions to the merger described in the joint proxy statement/prospectus.

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:

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.

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.

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CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Amount to be registered(1)	Proposed maximum offering price per unit	Proposed maximum aggregate offering price(2)	Amount of registration fee(2)
Common Stock, par value \$1.00 per share	5,870,153	N/A	\$165,888,992	\$13,421

(1) Represents the maximum number of shares of common stock of Sterling Financial Corporation issuable or reserved for issuance upon consummation of the merger described herein.

(2) Pursuant to Rule 457(c) and 457(f), the registration fee is based on the high and low prices of Klamath First Bancorp, Inc. common stock as reported by Nasdaq on September 12, 2003 (\$21.76) multiplied by 7,623,575 (the maximum number of shares of Klamath common stock to be converted in the merger).

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 which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

The boards of directors of Sterling Financial Corporation and Klamath First Bancorp, Inc. have unanimously approved an agreement to combine our companies. In the merger, Klamath will merge into Sterling, with Sterling being the surviving corporation. Each share of Klamath common stock will be converted into 0.77 shares of Sterling common stock. The exchange ratio is fixed and will not be adjusted based on changes in the prices of our common stock prior to the closing, except under certain circumstances that are described in the accompanying joint proxy statement/prospectus.

The value of the merger consideration received by Klamath's shareholders will fluctuate with the market price of Sterling common stock.

Based upon the closing price for Sterling common stock on July 14, 2003 (the day prior to the public announcement of the merger) of \$26.55 per share, the 0.77 exchange ratio represented approximately \$20.44 in value for each share of Klamath common stock.

Based upon the closing price for Sterling common stock on [October 31, 2003], the 0.77 exchange ratio represented approximately [\$] in value for each share of Klamath common stock.

We urge you to obtain current market price quotations for Sterling and Klamath common stock. Sterling common stock is quoted on the Nasdaq National Market under the symbol "STSA." Klamath common stock is quoted on the Nasdaq National Market under the symbol "KFBI." We expect that the merger will be a tax free transaction for Klamath's shareholders.

Each of our companies will hold a special meeting of shareholders to vote on the proposed merger. Your vote is very important. Whether or not you plan to attend your special meeting, please take the time to vote by completing and mailing the enclosed proxy card to us. The date of both the Sterling and Klamath special meetings is [December 11, 2003] and notices of both meetings follow this letter.

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The accompanying joint proxy statement/prospectus gives you important information about the proposed merger and related matters. You should read this entire document carefully, including the section entitled "Risk Factors" beginning on page [], before you decide how to vote on the merger and the transactions contemplated by the merger agreement.

The respective boards of directors of Sterling and Klamath have unanimously determined that the terms of the merger agreement and the merger are fair to and in the best interests of their respective shareholders. The financial advisors for Sterling and Klamath have reached the same conclusion. We enthusiastically join the other members of our boards of directors in recommending that you vote FOR approval of the merger.

Harold B. Gilkey
Chairman and Chief Executive Officer
Sterling Financial Corporation

Kermit K. Houser
President and Chief Executive Officer
Klamath First Bancorp, Inc.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved the Sterling common stock to be issued in the merger or determined if this joint proxy statement/prospectus is accurate or adequate. Any representation to the contrary is a criminal offense. The securities offered through this document are not deposits, savings accounts or other obligations of a depository institution and are not insured by the Federal Deposit Insurance Corporation or any other governmental agency.

This joint proxy statement/prospectus is dated [October , 2003] and is first being mailed to shareholders on or about [November , 2003].

REFERENCES TO ADDITIONAL INFORMATION

This joint proxy statement/prospectus incorporates important business and financial information about Sterling and Klamath 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 and Klamath that are incorporated by reference in this document through the SEC's website at <http://www.sec.gov> or by requesting them in writing or by telephone from the appropriate company:

Sterling Financial Corporation
111 North Wall Street
Spokane, Washington 99201
Attn: Investor Relations
(509) 458-2711

Klamath First Bancorp, Inc.
540 Main Street
Klamath Falls, Oregon 97601
Attn: Investor Relations
(541) 882-3444

If you would like to request documents please do so by [December 1, 2003], in order to receive them before the special meeting of shareholders. See "Where You Can Find More Information" on page [].

STERLING FINANCIAL CORPORATION NOTICE OF SPECIAL MEETING OF SHAREHOLDERS TO BE HELD ON DECEMBER 11, 2003

A special meeting of shareholders of Sterling Financial Corporation will be held on the third floor of the headquarters of Sterling Financial Corporation located at 111 North Wall Street, Spokane, Washington, on [Thursday, December 11, 2003,] at 10:00 a.m., local time, for the following purposes:

1. To consider and vote upon a proposal to approve the Agreement and Plan of Merger dated as of July 14, 2003, by and between Sterling Financial Corporation and Klamath First Bancorp, Inc., a copy of which is attached as Annex A to the accompanying joint proxy statement/prospectus, pursuant to which Klamath will merge into Sterling on the terms and subject to the conditions contained in the merger agreement.
2. To transact such other business as may properly come before the special meeting or any adjournments thereof.

We have fixed October 13, 2003 as the record date for determining those shareholders entitled to vote at the special meeting and any adjournments or postponements of the special meeting. Accordingly, only shareholders of record at the close of business on that date are entitled to notice of, and to vote at, the special meeting and any adjournments or postponements of the special meeting.

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YOUR VOTE IS IMPORTANT REGARDLESS OF THE NUMBER OF SHARES YOU OWN OR WHETHER OR NOT YOU PLAN TO ATTEND THE SPECIAL MEETING. EVEN IF YOU EXPECT TO ATTEND THE SPECIAL MEETING, WE URGE YOU TO COMPLETE, SIGN AND DATE THE ENCLOSED PROXY CARD AND RETURN IT PROMPTLY IN THE POSTAGE-PAID ENVELOPE.

By Order of the Board of Directors,

Ned M. Barnes
Secretary

Spokane, Washington
[October 31, 2003]

**KLAMATH FIRST BANCORP, INC.
NOTICE OF SPECIAL MEETING OF SHAREHOLDERS
TO BE HELD DECEMBER 11, 2003**

NOTICE IS HEREBY GIVEN that a special meeting of shareholders of Klamath First Bancorp, Inc. will be held at the Ross Ragland Theater Cultural Center, 218 N. 7th Street, Klamath Falls, Oregon 97601, on [Thursday, December 11, 2003], at 10:00 a.m., for the following purposes:

1. To consider and vote upon a proposal to approve the Agreement and Plan of Merger dated as of July 14, 2003, by and between Sterling Financial Corporation and Klamath First Bancorp, Inc., a copy of which is attached as Annex A to the accompanying joint proxy statement/prospectus, pursuant to which Klamath will merge with and into Sterling on the terms and subject to the conditions contained in the merger agreement.
2. To consider and act upon such other matters as may properly come before the meeting or any adjournment thereof.

The proposed merger is discussed more fully in the joint proxy statement/prospectus attached to this notice. We urge you to read this document and its appendices carefully before voting.

Only Klamath shareholders of record at the close of business on October 13, 2003 are entitled to notice of and to vote at the special meeting, or any adjournment thereof. A majority of the shares of Klamath common stock outstanding on the record date must be voted in favor of the merger agreement in order for the merger to be completed. Therefore, your vote is very important.

All Klamath shareholders are cordially invited to attend the special meeting. However, we encourage you to vote by proxy so that your shares will be represented and voted at the meeting even if you cannot attend. You may vote by written proxy card using the instructions provided on the enclosed proxy card. Of course, this will not prevent you from voting in person at the meeting. Your failure to vote your shares is the same as voting against approval of the merger agreement.

After careful consideration, the board of directors of Klamath has determined that the merger and the merger agreement are fair and in the best interests of Klamath and its shareholders and unanimously recommends that Klamath shareholders vote FOR approval of the merger agreement.

By Order of the Board of Directors,

Craig M Moore
Secretary

Klamath Falls, Oregon
[October 31, 2003]

IMPORTANT: THE PROMPT RETURN OF PROXIES WILL SAVE THE COMPANY THE EXPENSE OF FURTHER REQUESTS FOR PROXIES. THEREFORE, PLEASE COMPLETE, SIGN AND DATE THE ENCLOSED PROXY CARD AND PROMPTLY RETURN IT. A SELF-ADDRESSED ENVELOPE IS ENCLOSED FOR YOUR CONVENIENCE. NO POSTAGE IS REQUIRED IF MAILED IN THE UNITED STATES.

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QUESTIONS AND ANSWERS ABOUT THE MERGER

Q: Why are the companies proposing to merge?

A: We are proposing to merge because we believe that the combined company will be a stronger, more competitive company. We also believe that the complementary distribution networks of our two companies will result in the combined company being a leading regional community bank in the Pacific Northwest. See "The Merger-Sterling's reasons for the merger" and "Klamath's reasons for the merger."

Q: What will Klamath shareholders receive in the merger?

A: Under the merger agreement, each outstanding share of Klamath common stock will be converted into 0.77 shares of Sterling common stock and cash in lieu of fractional shares.

Q: What do I need to do now?

A: First, please carefully read this joint proxy statement/prospectus. Then, whether or not you expect to attend your shareholders meeting, please mail your completed and signed proxy card in the enclosed return envelope as soon as possible so that your shares will be represented at your shareholders meeting. Your proxy card must be received prior to your shareholders meeting in order for your shares to be voted at your shareholders meeting, unless you attend and vote at your shareholders meeting. If you are able to attend your shareholders meeting, you may revoke your proxy and vote your shares in person even if you have previously completed and returned the proxy card. See "The Sterling Special Meeting" and "The Klamath Special Meeting" as applicable.

THE BOARDS OF DIRECTORS OF STERLING AND KLAMATH UNANIMOUSLY RECOMMEND THAT YOU VOTE "FOR" APPROVAL OF THE MERGER.

Q: What vote is required to approve the merger?

A: For the merger agreement to be approved by Sterling shareholders, a majority of the votes cast in person or by proxy at the special meeting must vote FOR approval of the merger agreement.

For the merger agreement to be approved by Klamath shareholders, a majority of all the votes entitled to be cast in person or by proxy at the special meeting must vote FOR approval of the merger agreement.

Q: Can I dissent and require appraisal of my shares?

A: Shareholders are not entitled to dissenters' appraisal rights in connection with the merger.

Q: What do I do if I want to change my vote?

A: You can change your vote in one of three ways at any time before your proxy is voted at your special meeting. First, you can send Klamath or Sterling, as appropriate, a written notice stating that you would like to revoke your proxy. Second, you can complete and send a new proxy card. Third, you can attend your special meeting and vote in person. If you have voted through a broker, bank or other nominee, you must follow the directions you receive from such entity to change your vote.

Q: If my shares are held in "street name" by my broker, will my broker vote my shares for me?

A: Your broker will vote your shares only if you provide instructions on how to vote. You should fill out the voter instruction form sent to you by your broker with this joint proxy statement/prospectus. Klamath shareholders who do not give instructions to their broker will, in effect, be voting against the merger agreement.

Q: Should I send in my Klamath stock certificates now?

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A: No. After the merger is completed, we will send you written instructions for exchanging your Klamath stock certificates for Sterling stock certificates. Please do not send in your stock certificates with your proxy card. Sterling shareholders will continue to hold their certificates.

Q: When do you expect the merger to be completed?

A: We are working toward completing the merger as quickly as possible. We hope to complete the merger in early January 2004, if all required matters have been completed at that time.

Q: Will I recognize a taxable gain or loss on the transaction?

A: We expect that if the merger is completed, you will not recognize a gain or loss for United States federal income tax purposes as a result of the merger, except that Klamath shareholders will recognize a gain or loss with respect to cash received in lieu of a fractional share of Sterling common stock. However, we urge you to consult your own tax advisor to determine the tax consequences particular to your situation.

Q: Whom should I call with questions?

A: If you have any questions or if you need additional copies of the joint proxy statement/prospectus or other information, you should contact:

Klamath First Bancorp, Inc.
Investor Relations
540 Main Street
Klamath Falls, OR 97601
(541) 882-3444

Sterling Financial Corporation
Investor Relations
111 North Wall Street
Spokane, WA 99201
(509) 458-2711

You may also obtain additional information about Sterling and Klamath from documents we file with the Securities and Exchange Commission. See "Where You Can Find More Information" on page [].

Q: Are there any risks related to the proposed transaction or any risks related to owning Sterling common stock?

A: Yes. You should carefully review the section entitled "Risk Factors" beginning on page [] of this joint proxy statement/prospectus.

SUMMARY OF THIS JOINT PROXY STATEMENT/PROSPECTUS

This summary and the preceding "Questions and Answers about the Merger" highlight selected information from this joint proxy statement/prospectus and may not contain all of the information that is important to you. To understand the merger fully and for a more complete description of the legal terms of the merger, you should carefully read this entire joint proxy statement/prospectus and the other documents to which we refer you. See "Where You Can Find More Information" on page []. We have included page references in parentheses to direct you to a more complete description of some of the topics presented in this summary.

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Sterling Financial Corporation
111 North Wall Street
Spokane, Washington 99201
(509) 458-2711
www.sterlingsavingsbank.com

Sterling Financial Corporation is a unitary savings and loan holding company, the significant operating subsidiary of which is Sterling Savings Bank. The principal operating subsidiaries of Sterling Savings Bank are Action Mortgage Company, INTERVEST-Mortgage Investment Company and Harbor Financial Services, Inc. Sterling Savings Bank commenced operations in 1983 as a Washington State-chartered, federally insured stock savings and loan association headquartered in Spokane, Washington.

Sterling provides personalized, quality financial services to its customers as exemplified by its "Hometown Helpful" philosophy. Sterling believes that this dedication to personalized service has enabled it to maintain a stable retail deposit base. With \$4.09 billion in total assets at June 30, 2003, Sterling attracts Federal Deposit Insurance Corporation insured deposits from the general public through 83 retail branches located in Washington, Oregon, Idaho and Montana. Sterling originates loans through its branch offices as well as Action Mortgage residential loan production offices in the four-state area and through INTERVEST commercial real estate lending offices in Washington and Oregon. Sterling also markets tax-deferred annuities, mutual funds and other financial products through Harbor Financial and property and casualty insurance coverage through Dime Insurance Agency, a subsidiary of Sterling Savings Bank.

For additional information about Sterling's business, see Sterling's Annual Report on Form 10-K for the year ended December 31, 2002 and Quarterly Reports on Form 10-Q for the quarters ended March 31, 2003 and June 30, 2003 and other documents Sterling has filed with the SEC, which are incorporated into this joint proxy statement/prospectus by reference. See "Where You Can Find More Information" on page [].

Klamath First Bancorp, Inc.
540 Main Street
Klamath Falls, Oregon 97601
(541) 882-3444
www.Klamathfirst.com

Klamath First Bancorp, Inc. is a unitary savings and loan holding company, the significant subsidiary of which is Klamath First Federal Savings and Loan Association.

Klamath First Federal is a progressive, community-oriented savings and loan association that focuses on customer service within its primary market area. Klamath First Federal is primarily engaged in attracting deposits from the general public and using those and other available sources of funds to originate permanent residential one-to four-family real estate loans and loans on commercial real estate, multi-family residential properties, and to consumers and small businesses within its market

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area. While Klamath First Federal has historically emphasized fixed rate mortgage lending, it has been diversifying its loan portfolio by focusing on increasing the number of originations of commercial real estate loans, multi-family residential loans, residential construction loans, commercial and industrial loans, business loans and non-mortgage consumer loans. A significant portion of these newer loan products carry adjustable rates, higher yields, or shorter terms than the traditional fixed rate mortgages. This lending strategy is designed to enhance earnings, reduce interest rate risk, and provide a more complete range of financial services to customers and the local communities served.

At June 30, 2003, Klamath had total consolidated assets of \$1.45 billion, consolidated shareholders' equity of \$121.5 million and 59 offices. In September 2003, Klamath announced that it had entered into an agreement to sell seven of its branches with aggregate deposits of approximately \$66 million. The sale of such branches is expected to be completed in December 2003.

For additional information about Klamath's business, see Klamath's Annual Report on Form 10-K for the year ended September 30, 2002 and Quarterly Reports on Form 10-Q for the quarters ended December 31, 2002, March 31, 2003 and June 30, 2003, and other documents Klamath has filed with the SEC, which are incorporated into this joint proxy statement/ prospectus by reference. See "Where You Can Find More Information" on page [].

Summary of the Transaction

The merger (page []).

In the merger, Klamath will merge with and into Sterling. The merger agreement is attached to this joint proxy statement/prospectus as Annex A and is incorporated herein by reference. We encourage you to carefully read the merger agreement and the discussion of the merger and merger agreement in this joint proxy statement/prospectus.

Our reasons for the merger (pages [] and []).

We are proposing to merge our two companies because we believe that:

the combined company will be positioned to compete successfully in a consolidating financial services industry and will be able to achieve financial performance beyond what our two companies could achieve separately;

the combined company has good prospects for improved performance as the result of economies of scale and a broader distribution network;

Klamath and its shareholders will benefit from a business combination with Sterling and mitigate the risks of continuing to operate as a stand-alone entity, including the risks related to transitioning to a commercial bank strategy; and

When the merger was publicly announced, the exchange ratio represented a premium over the market price for shares of Klamath common stock existing before the public announcement of the merger; and

Klamath shareholders will receive the merger consideration on a tax-deferred basis.

These potential benefits, however, may not be achieved. For a more complete description of the factors considered by the respective boards of directors, see "The Merger-Sterling's reasons for the merger" and "Klamath's reasons for the merger." In addition, there are potential risks related to the merger. See "Risk Factors" on page [] and "Forward-Looking Information" on page [].

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Our boards of directors recommend that you vote for the merger (pages [] and []).

The Sterling and the Klamath boards of directors believe that the merger is fair to and in the best interests of their respective shareholders. The Sterling board and the Klamath board have each, by unanimous votes of their members, approved the merger agreement and the transactions contemplated thereby and unanimously recommends that you vote FOR the approval of the merger agreement.

Our financial advisors say the merger consideration is fair (pages [] and []; Annexes B and C).

In deciding to approve the merger, Klamath's board of directors considered a written opinion, dated July 14, 2003, from its financial advisor, D.A. Davidson & Co., Inc. ("Davidson"), that the consideration to be received in the merger was fair from a financial point of view to holders of Klamath common stock.

In deciding to approve the merger, Sterling's board of directors considered a written opinion, dated July 14, 2003, from its financial advisor, Sandler O'Neill & Partners, L.P. ("Sandler O'Neill"), that the exchange ratio was fair to Sterling from a financial point of view.

The exchange ratio (page []).

Pursuant to the merger agreement, each share of Klamath common stock will be converted into 0.77 shares of Sterling common stock. Instead of issuing fractional shares of stock, Sterling will pay cash for fractional shares based on the average closing price of Sterling common stock over a specified period of time before the closing of the merger.

Possible adjustment of exchange ratio (page []).

If the average closing price of Sterling's common stock during a specified period just prior to the closing date is less than \$20.53 and the price has also declined since June 13, 2003 by 15% or more relative to a weighted average index of a certain group of financial institution holding companies, Klamath has the right to terminate the merger agreement under certain conditions. Sterling, however, will then have the option to avoid the termination by increasing the number of shares of Sterling common stock to be exchanged for shares of Klamath common stock.

Special shareholders meetings (page []).

Klamath. The special meeting of Klamath's shareholders will be held on [Thursday, December 11, 2003], at 10:00 a.m., local time, at the Ross Ragland Theater Cultural Center, 218 N. 7th Street, Klamath Falls, Oregon. At the meeting, you will be asked to approve the merger agreement for the merger of Klamath with and into Sterling. You can vote at the special meeting only if you owned shares of Klamath common stock at the close of business on October 13, 2003, the record date.

Sterling. The special meeting of Sterling's shareholders will be held on [Thursday, December 11, 2003], at 10:00 a.m. local time, at the headquarters of Sterling, 111 North Wall Street, Spokane, Washington, on the third floor. At the meeting, you will be asked to approve the merger agreement for the merger of Klamath with and into Sterling. You can vote at the special meeting only if you owned shares of Sterling common stock at the close of business on October 13, 2003, the record date.

Votes required for approval (page []).

Klamath. For the merger agreement to be approved by Klamath shareholders, a majority of all the votes entitled to be cast in person or by proxy at the special meeting must vote FOR approval of the merger agreement. Klamath's shareholders are entitled to cast one vote for each share of Klamath common stock they owned as of the record date. For a discussion of a certain limitation on voting rights, see "The Klamath Special Meeting-Record date; outstanding shares; shares entitled to vote."

Sterling. For the merger to be approved by Sterling shareholders, a majority of the votes cast in person or by proxy by Sterling shareholders at the special meeting must vote FOR approval of the merger agreement. Sterling's shareholders are entitled to cast one vote for each share of Sterling common stock they owned as of the record date. As of the record date, Sterling's directors and executive officers collectively owned [] shares of Sterling common stock, or approximately [] percent of Sterling's outstanding shares.

Klamath's directors and certain executive officers have agreed to vote in favor of the merger agreement (page []).

As a condition to the merger, Klamath's directors and certain executive officers, who collectively held approximately [] percent of Klamath's outstanding common stock as of October 13, 2003, the record date, have agreed to vote all the shares of Klamath common stock beneficially owned by them in favor of approval of the merger agreement.

Interests of Klamath's directors and executive officers in the merger (page []).

When considering the recommendation of Klamath's board of directors, you should be aware that some of Klamath's directors and executive officers have interests in the merger that are different from, or in addition to, yours. These include indemnification rights, board appointments, and acceleration of vesting for options and restricted stock, and other benefits and payments under agreements and employee benefit and retention plans. Klamath's board of directors was aware of and considered the interests of Klamath's directors and executive officers in approving the merger and recommending that Klamath's shareholders approve the merger.

The merger will generally be tax-free to shareholders (page []).

Sterling and Klamath intend the merger to qualify as a tax-free reorganization under the Internal Revenue Code. It is a condition to the completion of the merger that both parties receive an opinion from their tax counsel that the merger will so qualify. We expect that none of Klamath, Sterling or their respective shareholders will recognize a gain or loss for United States federal income tax purposes, except for taxes payable by Klamath shareholders for cash received instead of fractional shares of Sterling common stock. Because tax matters are complicated, however, we urge you to consult your own tax advisor to understand fully how the merger will affect you, including how any state, local or foreign tax laws may apply to you.

Accounting treatment of the merger (page []).

Sterling expects to account for the merger using the purchase method of accounting in accordance with generally accepted accounting principles.

Certain conditions must be met prior to completion of the merger (page []).

Klamath's and Sterling's respective obligations to effect the merger are subject to the prior satisfaction or waiver of specific conditions including the approval of the merger by shareholders of Sterling and Klamath.

The merger agreement may be terminated (page []).

Even if Klamath's shareholders approve the merger, Sterling and Klamath can agree at any time to terminate the merger agreement without completing the merger. In addition, subject to qualifications, the merger agreement may be terminated by either Klamath or Sterling if certain conditions occur.

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Termination fees may become payable (page []).

Klamath must pay Sterling a termination fee of up to \$6.0 million if the merger agreement is terminated under certain conditions. Sterling must pay Klamath a termination fee of \$1.5 million if the merger agreement is terminated under certain conditions.

Differences in rights of Klamath and Sterling shareholders (page []).

The rights of Klamath's shareholders are governed by Oregon law and Klamath's articles of incorporation and bylaws. When the merger is completed, Klamath's shareholders will become shareholders of Sterling. Because Sterling is a Washington corporation, the rights of Klamath's shareholders will be governed following the merger by Washington law and by Sterling's articles of incorporation and bylaws, which differ in some respects from Klamath's.

Treatment of options (page []).

Pursuant to the terms of Klamath's stock option plan, as a result of the merger, each outstanding option to purchase shares of Klamath common stock will be converted into the right to purchase a number of shares of Sterling common stock, based upon the exchange ratio.

Treatment of employee benefit plans (page []).

Klamath has agreed to terminate or withdraw from all of Klamath's employee benefit plans, except for the Klamath 401(k) Plan, at or as soon as reasonably practicable after the effective time of the merger. Sterling has agreed to merge the Klamath 401(k) Plan into Sterling's 401(k) Plan. Sterling will also offer Klamath employees who remain at Sterling benefits commensurate with the benefits it provides to comparable Sterling employees.

Comparative common stock price and dividend information (page []).

Shares of both Sterling common stock and Klamath common stock are listed on the Nasdaq National Market under the symbols "STSA" and "KFBI," respectively. On July 14, 2003, the last full trading day before the public announcement of the proposed merger, Sterling's common stock closed at \$26.55 per share and Klamath's common stock closed at \$17.45 per share. On [October 31, 2003], a date just prior to the time of the printing of this joint proxy statement/prospectus, Sterling's common stock closed at [\$] per share and Klamath's common stock closed at [\$] per share. We urge you to obtain current market quotations.

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The following tables set forth selected historical consolidated financial and other data of Sterling as of and for the five years ended December 31, 2002 and as of and for the six months ended June 30, 2003 and 2002. The historical consolidated financial data for the six months ended June 30, 2003 and 2002 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. Operating results for the six months ended June 30, 2003 are not necessarily indicative of the results that may be expected for any interim period or the entire year ending December 31, 2003. The financial information for the five years ended December 31, 2002 is based on, and qualified in its entirety by, the consolidated financial statements of Sterling, including the notes thereto, which are incorporated by reference in this joint proxy statement/prospectus and should be read in conjunction herewith.

	June 30,		December 31,				
	2003	2002	2002	2001	2000	1999	1998

(Dollars in thousands)

BALANCE SHEET DATA

Total assets	\$ 4,094,587	\$ 3,088,078	\$ 3,506,064	\$ 3,038,593	\$ 2,652,709	\$ 2,546,925	\$ 2,314,587
Loans receivable, net	2,668,990	2,173,176	2,390,263	2,109,479	1,965,927	1,787,771	1,468,534
Asset-backed securities	980,791	580,042	743,610	617,569	314,434	343,310	405,725
Investments	95,912	78,080	86,558	76,479	171,748	162,420	180,680
Deposits	2,393,707	1,979,219	2,014,096	1,853,536	1,724,219	1,617,368	1,545,425
FHLB Seattle advances	995,119	620,249	874,515	633,054	530,652	490,503	319,540
Reverse repurchase agreements	276,958	151,258	249,769	118,549	110,326	179,515	195,074
Other borrowings	139,782	119,000	127,682	127,500	110,000	110,000	97,240
Shareholders' equity	246,343	186,778	203,656	165,690	141,338	117,639	119,017

CAPITAL RATIOS(1)

Core capital ratio	7.43%	8.22%	7.57%	8.00%	7.10%	6.77%	6.39%
Tier I risk-based capital ratio	10.10%	10.55%	10.03%	10.83%	9.71%	9.50%	9.40%
Total risk-based capital ratio	11.05%	11.44%	10.96%	11.69%	10.25%	10.36%	10.30%

STATISTICAL DATA

Number of:

Employees (full time equivalents)	1,058	944	953	890	822	817	746
Full service offices	83	77	79	77	77	77	77

(1) For Sterling Savings Bank.

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Selected Operating Data of Sterling(1)(2)

	Six Months Ended June 30,		Years Ended December 31,				
	2003	2002	2002	2001	2000	1999	1998

(Dollars in thousands, except per share amounts)

OPERATING RESULTS

Interest income	\$ 104,136	\$ 95,867	\$ 197,313	\$ 201,385	\$ 205,310	\$ 177,109	\$ 155,763
Interest expense	(45,525)	(49,110)	(96,965)	(116,516)	(125,544)	(102,004)	(96,558)
Net interest income	58,611	46,757	100,348	84,869	79,766	75,105	59,205
Provision for losses on loans	(4,800)	(4,313)	(11,867)	(8,000)	(4,600)	(3,900)	(5,325)

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	Six Months Ended June 30,		Years Ended December 31,				
Net interest income after provision for losses on loans	53,811	42,444	88,481	76,869	75,166	71,205	53,880
Other income	16,798	12,574	29,080	21,021	14,488	13,562	12,313
Merger, acquisition and conversion costs	(188)	0	0	(283)	0	0	(5,464)
Amortization of goodwill and other intangibles	(105)	(644)	(644)	(5,377)	(5,490)	(5,692)	(3,971)
Goodwill litigation	(314)	(520)	(1,100)	(890)	(1,074)	(272)	0
Other operating expenses	(43,408)	(38,255)	(79,199)	(66,743)	(61,404)	(58,514)	(46,856)
Income before income taxes	26,594	15,599	36,618	24,597	21,686	20,289	9,902
Income tax provision	(9,294)	(4,282)	(11,031)	(8,409)	(8,033)	(7,470)	(3,679)
Net income	\$ 17,300	\$ 11,317	\$ 25,587	\$ 16,188	\$ 13,653	\$ 12,819	\$ 6,223
Earnings per share-basic(1)	\$ 1.21	\$ 0.88	\$ 1.96	\$ 1.34	\$ 1.15	\$ 1.08	\$ 0.53
Earnings per share-diluted(1)	\$ 1.18	\$ 0.85	\$ 1.91	\$ 1.31	\$ 1.15	\$ 1.08	\$ 0.52
Weighted average shares outstanding basic(1)	14,244,227	12,903,754	13,027,884	12,105,546	11,857,657	11,834,358	11,753,117
Weighted average shares outstanding diluted(1)	14,602,015	13,392,933	13,432,770	12,364,029	11,911,639	11,919,534	12,005,381
FINANCIAL RATIOS(1)							
Return on average assets	0.92%	0.75%	0.80%	0.58%	0.52%	0.52%	0.30%
Return on average shareholders' equity	15.0%	13.2%	13.9%	10.5%	11.0%	10.7%	5.4%
Shareholders' equity to total assets at end of period	6.0%	6.1%	5.8%	5.5%	5.3%	4.6%	5.1%
Book value per share at end of period	\$ 16.67	\$ 14.22	\$ 15.48	\$ 12.99	\$ 11.92	\$ 9.93	\$ 10.09
Operating efficiency	58.4%	66.4%	62.5%	69.2%	72.1%	72.7%	78.7%
Net interest margin	3.33%	3.30%	3.37%	3.27%	3.25%	3.33%	3.05%
Nonperforming assets to total assets at end of period	0.77%	0.94%	0.59%	0.82%	0.56%	0.65%	0.40%
Reported net income	\$ 17,300	\$ 11,317	\$ 25,587	\$ 16,188	\$ 13,653	\$ 12,819	\$ 6,223
Add back: goodwill amortization, net of tax(3)	0	0	0	2,538	2,494	2,621	1,595
Total	\$ 17,300	\$ 11,317	\$ 25,587	\$ 18,726	\$ 16,147	\$ 15,440	\$ 7,818
Basic earnings per share:							
Reported net income	\$ 1.21	\$ 0.88	\$ 1.96	\$ 1.34	\$ 1.15	\$ 1.08	\$ 0.53
Goodwill amortization	0.00	0.00	0.00	0.21	0.21	0.22	0.14
Adjusted earnings per share	\$ 1.21	\$ 0.88	\$ 1.96	\$ 1.55	\$ 1.36	\$ 1.30	\$ 0.67
Diluted earnings per share:							
Reported net income	\$ 1.18	\$ 0.85	\$ 1.91	\$ 1.31	\$ 1.15	\$ 1.08	\$ 0.52
Goodwill amortization	0.00	0.00	0.00	0.21	0.21	0.22	0.13

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	Six Months Ended June 30,		Years Ended December 31,					
Adjusted earnings per share	\$ 1.18	\$ 0.85	\$ 1.91	\$ 1.52	\$ 1.36	\$ 1.30	\$ 0.65	

- (1) All prior period per common share and weighted average common share amounts have been restated to reflect the 10% common stock dividend distributed in 2003.

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Excluding the interim selected financial data, for the six months ended June 30, 2003 and 2002, the selected financial data (except the ratios and statistical data) of Sterling for each of the periods has been derived from Sterling's consolidated financial statements. Such consolidated financial statements for the years ended December 31, 2002 and 2001 have been audited by BDO Seidman, LLP. The consolidated financial statements for the years ended December 31, 2000, 1999 and 1998 have been audited by PricewaterhouseCoopers LLP.

- (2) Comparability could be affected by past acquisitions. On February 28, 2003, Sterling acquired Empire Federal Bancorp, Inc. which had approximately \$227.0 million in total assets. On September, 30, 2001, Sterling acquired Source Capital Corporation, which had approximately \$44.0 million in total assets. On November 13, 1998, Sterling acquired Big Sky Bancorp, Inc., which had approximately \$66.0 million in total assets. On June 15, 1998, Sterling acquired 33 branch offices of KeyBank. As a result of this transaction, Sterling's total assets increased by approximately \$197.0 million. The Big Sky Bancorp acquisition was accounted for under the pooling method. The remainder of the acquisitions were accounted for under the purchase accounting method.
- (3) 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.

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Selected Financial Data of Klamath

The following tables set forth selected historical consolidated financial and other data of Klamath as of and for the five years ended September 30, 2002, and as of and for the nine months ended June 30, 2003 and 2002. The historical consolidated financial data for the nine months ended June 30, 2003 and 2002 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. Operating results for the nine months ended June 30, 2003 are not necessarily indicative of the results that may be expected for any interim period or the entire year ended September 30, 2003. The financial information for the five years ended September 30, 2002 and the periods ended June 30, 2003 and 2002, is based on, and qualified in its entirety by, the consolidated financial statements of Klamath, including the notes thereto, which are incorporated by reference in this joint proxy statement/prospectus and should be read in conjunction herewith.

	June 30,		September 30,				
	2003(1)	2002	2002	2001	2000	1999	1998
	(Dollars in thousands)						

FINANCIAL CONDITION DATA

Assets	\$	1,449,887	\$	1,465,883	\$	1,513,495	\$	1,468,572	\$	995,575	\$	1,041,641	\$	1,031,302
Cash and cash equivalents		58,989		67,814		45,791		118,389		29,947		24,523		66,985
Loans receivable, net		555,287		626,490		607,465		679,990		729,037		739,793		668,146
Investment securities held to maturity				457				135		267		560		2,889
Investment securities available for sale		141,347		141,267		119,542		154,676		116,628		158,648		203,224

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	June 30,		September 30,				
Mortgage-backed & related securities held to maturity		378		1,621	2,160	2,601	3,662
Mortgage-backed & related securities available for sale	591,058	538,726	650,796	421,638	75,331	72,695	43,336
Stock in FHLB of Seattle, at cost	14,152	13,309	13,510	12,698	11,877	10,957	10,173
Advances from FHLB of Seattle	208,000	158,000	205,250	168,000	173,000	197,000	167,000
Deposit liabilities	1,081,010	1,148,589	1,142,006	1,152,824	695,381	720,401	689,541
Shareholders' equity	121,477	115,492	119,938	114,141	108,725	109,585	145,081

	Nine Months Ended June 30,		Years Ended September 30,				
	2003(1)	2002	2002	2001	2000	1999	1998

(Dollars in thousands, except per share data)

SELECTED OPERATING DATA

Total interest income	\$ 54,345	\$ 66,447	\$ 87,293	\$ 70,133	\$ 72,158	\$ 71,691	\$ 69,733
Total interest expense	22,398	30,824	39,531	40,751	40,756	38,382	37,848
Net interest income	31,947	35,623	47,762	29,382	31,402	33,309	31,885
Provision for loan losses		156	156	387	1,764	932	674
Net interest income after provision for loan losses	31,947	35,467	47,606	28,995	29,638	32,377	31,211
Non-interest income	12,970	8,256	12,614	11,013	4,094	3,629	3,202
Non-interest expense	42,826	36,929	50,171	28,720	23,773	21,186	19,523
Earnings before income taxes	2,091	6,794	10,049	11,288	9,959	14,820	14,890
Provision for income tax	605	2,374	3,260	3,717	3,533	5,665	5,339
Net earnings	\$ 1,486	\$ 4,420	\$ 6,789	\$ 7,571	\$ 6,426	\$ 9,155	\$ 9,551
Basic earnings per share	\$ 0.23	\$ 0.69	\$ 1.06	\$ 1.14	\$ 0.94	\$ 1.21	\$ 1.05
Weighted average shares basic	6,508,796	6,418,168	6,411,351	6,627,200	6,822,025	7,564,415	9,115,404

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Selected Financial Data of Klamath (continued)

	Nine Months Ended June 30,		Years Ended September 30,				
	2003(1)	2002	2002	2001	2000	1999	1998

(Annualized) (Annualized)

KEY OPERATING RATIOS

Performance Ratios

Return on average assets (net earnings (loss) divided by average assets)	0.13%	0.40%	0.46%	0.72%	0.62%	0.88%	0.96%
Return on average equity (net earnings (loss) divided by average equity)	1.65%	5.19%	5.92%	6.64%	5.82%	7.55%	6.52%
Interest rate spread (difference between average yield on interest-earning assets and average cost of interest-bearing liabilities)	2.72%	3.03%	3.04%	2.18%	2.50%	2.73%	2.57%
Net interest margin (net interest income as a percentage of average interest-earning assets)	0.03%	3.47%	3.48%	2.93%	3.14%	3.37%	3.36%
Average interest-earning assets to average interest-bearing liabilities	117.14%	114.58%	115.18%	118.37%	115.71%	116.47%	119.84%
Net interest income after provision for loan losses to total non-interest	74.60%	96.04%	94.89%	100.96%	124.39%	152.82%	159.87%

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	Nine Months Ended June 30,		Years Ended September 30,				
expenses							
Non-interest expense to average total assets	3.79%	3.33%	3.37%	2.74%	2.29%	2.05%	1.96%
Efficiency ratio (non-interest expense divided by net interest income plus non-interest income)	95.34%	84.16%	83.10%	55.48%	66.97%	57.36%	55.64%
Dividend payout ratio (dividends declared per share divided by net earnings per share)	169.57%	56.52%	49.06%	45.61%	54.79%	38.98%	34.50%
Book value per share	\$ 18.31	\$ 18.28	\$ 18.84	\$ 17.40	\$ 16.25	\$ 15.52	\$ 16.30
Asset Quality Ratios							
Allowance for loan losses to total loans at end of period	1.23%	1.22%	1.19%	1.13%	0.54%	0.32%	0.28%
Non-performing assets to total assets	0.12%	0.07%	0.12%	0.05%	0.16%	0.46%	0.05%
Non-performing loans to total loans, before net items	0.21%	0.17%	0.18%	0.04%	0.11%	0.43%	0.07%
Capital Ratios(2)							
Equity to assets ratio	8.38%	7.88%	7.92%	7.77%	10.92%	10.52%	14.07%
Tangible capital ratio	6.89%	6.46%	6.55%	5.16%	10.35%	8.91%	8.26%
Core capital ratio	6.89%	6.46%	6.55%	5.16%	10.35%	8.91%	8.26%
Risk-based capital ratio	12.95%	13.52%	14.01%	10.36%	20.30%	17.41%	16.13%
Other Data							
Number of loans outstanding	10,660	12,183	11,835	12,624	8,807	9,297	9,155
Number of deposit accounts	125,971	130,516	131,001	111,542	85,706	85,112	82,585
Number of full service offices	59	57	57	52	35	34	34

(1) The results for the period ended June 30, 2003 reflect a non-cash charge to earnings of approximately \$2.5 million after tax in connection with "other-than-temporary" impairment on two Federal Home Loan Mortgage Corporation and one Federal National Mortgage Association issues of variable rate non-cumulative preferred stock held in Klamath's available for sale investment portfolio. See Exhibit 99.1 of Klamath's report filed with the SEC on Form 8-K dated August 13, 2003.

(2) For Klamath First Federal Savings and Loan Association.

Comparative Stock Price and Dividend Information

Klamath common stock is listed on the Nasdaq National Market under the symbol "KFBI." Sterling common stock is listed on the Nasdaq National Market under the symbol "STSA." The following table sets forth the high and low sale prices of shares of Sterling common stock and Klamath common stock as reported on the Nasdaq National Market, and the Klamath cash dividends declared per share for the dates indicated. Sterling has not declared cash dividends in the past. Sales prices in the table have been adjusted to reflect stock dividends.

	Sterling Common Stock		Klamath Common Stock		
	High	Low	High	Low	Dividends
2003					

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	Sterling Common Stock		Klamath Common Stock		
Quarter ended June 30	\$ 24.75	\$ 18.91	\$ 17.64	\$ 16.32	\$ 0.13
Quarter ended March 31	19.30	17.01	17.75	15.86	0.13

2002

Quarter ended December 31	\$ 18.67	\$ 15.23	\$ 16.44	\$ 13.24	\$ 0.13
Quarter ended September 30	18.45	14.43	16.25	13.35	0.13
Quarter ended June 30	21.00	16.86	16.75	13.05	0.13
Quarter ended March 31	18.80	12.19	13.67	13.00	0.13

2001

Quarter ended December 31	\$ 12.42	\$ 11.14	\$ 13.71	\$ 11.91	\$ 0.13
Quarter ended September 30	13.04	10.86	15.22	12.60	0.13
Quarter ended June 30	11.47	9.92	15.00	12.95	0.13
Quarter ended March 31	10.21	8.61	14.13	11.94	0.13

2000

Quarter ended December 31	N/A	N/A	\$ 13.23	\$ 10.81	\$ 0.13
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Pursuant to the merger agreement, Klamath may continue to pay quarterly cash dividends of up to \$0.13 per share consistent with past practice, but may not declare other dividends without Sterling's written consent. Sterling has paid stock dividends in the past but has never paid cash dividends on its shares of common stock. The board of directors of Sterling is currently evaluating the payment of cash dividends in the future although it has reached no decision in this regard. The timing and amount of any future dividends will depend upon earnings, cash requirements, capital requirements, the financial condition of Sterling and its subsidiaries, applicable government regulations and other factors deemed relevant by Sterling's board of directors.

The following table presents closing sales prices for Sterling common stock and Klamath common stock on the Nasdaq National Market on July 14, 2003, which was the last full trading day prior to the public announcement of the signing of the merger agreement and [October], 2003, which was the

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last full trading day for which information was available prior to the date of the printing of this joint proxy statement/prospectus.

	Closing Sales Price		
	Sterling	Klamath	Klamath Equivalent(1)
Price per share:			
July 14, 2003	\$ 26.55	\$ 17.45	\$ 20.44
[October], 2003	[]	[]	[]

- (1) The equivalent prices per share of Klamath common stock on the indicated dates were determined by multiplying the assumed exchange ratio of 0.77 by the closing price per share of the Sterling common stock on the indicated date.

We advise you to obtain current market quotations for Sterling common stock and Klamath common stock. Past price performance is not necessarily indicative of likely future performance. The market prices of Sterling common stock and Klamath common stock at any time before the merger, and the market price of Sterling common stock at any time after the merger, may fluctuate. The exchange ratio will not be adjusted for any increases or decreases in the market price of Sterling common stock that occur before the merger becomes effective.

Selected Combined Consolidated Unaudited Pro Forma Financial Data
(In thousands, except shares and per share amounts)

The following table shows information about Sterling's financial condition and operations, including per share data and financial ratios, after giving effect to the merger. This information is called pro forma information in this joint proxy statement/prospectus. The table sets forth the information as if the merger had become effective on June 30, 2003, with respect to financial condition data, and as of January 1, 2002 and carried through the interim period, with respect to operations data. Sterling's fiscal year end is December 31st and Klamath's fiscal year end is September 30th. Therefore, the information presented below for the twelve months includes Sterling's year ended December 31, 2002 and Klamath's year ended September 30, 2002. The six month periods presented below includes Sterling's six months ended June 30, 2003 and Klamath's six months ended March 31, 2003. The pro forma data in the tables assume that the merger is accounted for using the purchase method of accounting. This table should be read in conjunction with and is qualified in its entirety by, the historical financial statements, including the notes thereto, of Sterling and Klamath incorporated by reference herein and the more detailed pro forma financial information, including the notes thereto, appearing elsewhere in this joint proxy statement/prospectus. See "Where You Can Find More Information" on page [] and "Pro Forma Financial Information" on page [].

We anticipate that the merger will provide the combined company with financial benefits that include reduced operating expenses. The pro forma information, while helpful in illustrating the financial characteristics of the combined company under one set of assumptions, does not reflect the benefits of expected cost savings or opportunities to earn additional revenue and, accordingly, does not attempt to predict or suggest future results. It also does not necessarily reflect what the historical

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results of the combined company would have been had our companies been combined during these periods.

	June 30, 2003	
SELECTED STATEMENT OF FINANCIAL CONDITION DATA:		
Total assets	\$	5,607,986
Asset-backed securities		1,571,849
Investments		237,259
Loans receivable, net		3,274,902
Deposits		3,474,717
Borrowed funds(1)		1,674,202
Shareholders' equity		391,787
	Six Months Ended June 30, 2003	Year Ended December 31, 2002
SELECTED STATEMENTS OF INCOME DATA:		
Interest income	\$	141,134
Interest expense		59,417
		\$ 284,606
		132,879