

STERLING FINANCIAL CORP /WA/

Form S-4/A

January 10, 2007

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As filed with the Securities and Exchange Commission on January 10, 2007.

Registration No. 333-139222

**SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

**Amendment No. 1
to**

**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)*

91-1572822
*(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:

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Richard A. Repp, Esq.
Witherspoon, Kelley, Davenport & Toole, P.S.
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**Lyman Lea, Esq.
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465 California Street, Suite 200
San Francisco, California 94014
(415) 981-1050**

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.

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.

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

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Sterling Financial Corporation

Northern Empire Bancshares

To the Shareholders of Sterling Financial Corporation and Northern Empire Bancshares:

The boards of directors of Sterling Financial Corporation (Sterling) and Northern Empire Bancshares (Northern Empire) have unanimously approved an agreement to combine our companies. If the merger is completed, Northern Empire will merge into Sterling, with Sterling being the surviving corporation. Each share of Northern Empire common stock will be converted into 0.8050 shares of Sterling common stock and \$2.71 in cash. The exchange ratio is fixed and will not be adjusted based on changes in the market prices of our common stock prior to closing, except under certain circumstances that are described in the accompanying joint proxy statement/prospectus.

The value of the merger consideration received by Northern Empire shareholders will fluctuate with the market price of Sterling common stock.

Based upon the closing price for Sterling common stock on September 15, 2006 (the last trading day prior to the public announcement of the merger) of \$33.04 per share, the 0.8050 exchange ratio plus the \$2.71 in cash represented approximately \$29.31 in value for each share of Northern Empire common stock.

Based upon the closing price for Sterling common stock on January 8, 2007 of \$33.47 per share, the 0.8050 exchange ratio plus the \$2.71 in cash represented approximately \$29.65 in value for each share of Northern Empire common stock.

We urge you to obtain current market price quotations for Sterling and Northern Empire common stock. Sterling common stock is quoted on the Nasdaq Global Select Market under the symbol STSA. Northern Empire common stock is quoted on the Nasdaq Global Market under the symbol NREB.

We cannot complete the merger unless the shareholders of both Sterling and Northern Empire approve the merger agreement. 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 the Sterling special meeting is February 21, 2007. The date of the Northern Empire special meeting will be February 20, 2007. Notices of both meetings follow this letter. **Please vote as soon as possible to make sure that your shares are represented at the special meeting of either Sterling or Northern Empire, as applicable. If you do not vote, it will have the same effect as voting against the merger agreement.**

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 10, before you decide how to vote on the merger and the transactions contemplated by the merger agreement. The accompanying joint proxy statement/prospectus also incorporates important business and financial information and risk factors about Sterling that are not included in or delivered with this document. See the section Where You Can Find More Information on page 82.

The respective boards of directors of Sterling and Northern Empire 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 Northern Empire have each separately determined that the merger consideration is fair from

a financial point of view to the respective shareholders of Sterling and Northern Empire. We enthusiastically join the other members of our boards of directors in recommending that you vote FOR approval of the merger.

/s/ Harold B. Gilkey

/s/ Deborah A. Meekins

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

Deborah A. Meekins
President and Chief Executive Officer
Northern Empire Bancshares

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 Northern Empire, 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 joint proxy statement/prospectus is dated January 10, 2007 and is first being mailed to the shareholders of Sterling and Northern Empire on or about January 17, 2007.

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REFERENCES TO ADDITIONAL INFORMATION

This proxy statement/prospectus incorporates important business and financial information about Sterling and Northern Empire 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 at:

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

You can obtain documents related to Northern Empire through the website of the SEC at www.sec.gov or by requesting them in writing or by telephone from Northern Empire at:

Northern Empire Bancshares
801 Fourth Street
Santa Rosa, California 95404
Attn: Deborah A. Meekins or Jane M. Baker
(707) 579-2265

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 February 14, 2007 in order to receive them prior to Sterling's or Northern Empire's special meeting of shareholders. See the section entitled "Where You Can Find More Information" on page 81.

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**Sterling Financial Corporation
111 North Wall Street
Spokane, Washington 99201**

NOTICE OF SPECIAL MEETING OF SHAREHOLDERS

Date: February 21, 2007

Time: 10:00 a.m.

Place: 4th Floor Boardroom, Sterling Financial Corporation, 111 North Wall Street, Spokane, Washington

TO OUR SHAREHOLDERS:

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

approval of the Agreement and Plan of Merger, dated as of September 17, 2006, by and between Sterling Financial Corporation and Northern Empire Bancshares. The merger agreement provides the terms and conditions under which it is proposed that Northern Empire merge with Sterling, as described in the accompanying proxy statement/prospectus;

any proposal of the Sterling board of directors to adjourn or postpone the special meeting; and

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

Common shareholders of record at the close of business on January 12, 2007 are entitled to notice of, and to vote at, the special meeting and any adjournments or postponements of the special meeting. The required quorum for the transaction of business at the special meeting is a majority of the shares of Sterling common stock outstanding on the record date, represented in person or by proxy. 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.

BY ORDER OF THE BOARD OF DIRECTORS

/s/ Andrew J. Schultheis
Andrew J. Schultheis
Secretary

Spokane, Washington
January 10, 2007

Your vote is very important

To ensure that your shares are voted at the special meeting, please complete, sign and date your proxy card and return it in the enclosed envelope promptly. You can also vote by telephone or through the Internet by

following the instructions on the proxy card. If you hold your shares in street name with a bank or broker, you must instruct the street name holder regarding how to vote your shares and you must follow the procedures set forth by your street name holder.

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**Northern Empire Bancshares
801 Fourth Street
Santa Rosa, California 95404**

NOTICE OF SPECIAL MEETING OF SHAREHOLDERS

Date: February 20, 2007

Time: 5:00 p.m.

Place: 801 Fourth Street, Santa Rosa, California

TO OUR SHAREHOLDERS:

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

approval of the Agreement and Plan of Merger, dated as of September 17, 2006, by and between Sterling Financial Corporation and Northern Empire Bancshares. The merger agreement provides the terms and conditions under which it is proposed that Northern Empire merge with Sterling, as described in the accompanying proxy statement/prospectus;

any proposal of the Northern Empire board of directors to adjourn or postpone the special meeting; and

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

Common shareholders of record at the close of business on January 12, 2007 are entitled to notice of, and to vote at, the special meeting and any adjournments or postponements of the special meeting. The affirmative vote of the holders of a majority of the outstanding shares of Northern Empire common stock as of that date is required to approve the merger agreement.

In limited circumstances set forth in California law, dissenters' rights of appraisal are available to Northern Empire shareholders in connection with the merger. The provisions of California law regarding dissenters' rights of appraisal are summarized in this proxy statement/prospectus under the heading Dissenters' Rights. In addition, the relevant California statutory provisions regarding dissenters' rights are attached to this document as Appendix D.

BY ORDER OF THE BOARD OF DIRECTORS

/s/ Patrick R. Gallaher
Patrick R. Gallaher
Secretary

Santa Rosa, California
January 10, 2007

Your vote is very important

To ensure that your shares are voted at the special meeting, please complete, sign and date your proxy card and return it in the enclosed envelope promptly. You can also vote by telephone or through the Internet by following the instructions on the proxy card. If you hold your shares in street name with a bank or broker, you must instruct the street name holder regarding how to vote your shares and you must follow the procedures set forth by your street name holder.

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QUESTIONS AND ANSWERS ABOUT THE MERGER

The following are some of the questions that you, as a shareholder of either Sterling or Northern Empire, 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 with respect to the vote of your Sterling or Northern Empire common stock on the merger agreement.

Q1: Why do Sterling and Northern Empire want to merge?

A1: We are proposing to merge because we believe the combined company will be a stronger, more competitive company.

Q2: What will Northern Empire shareholders receive in the merger?

A2: Northern Empire shareholders will receive, in exchange for each share of Northern Empire common stock they hold, consideration equal to 0.8050 shares of Sterling common stock and \$2.71 in cash as well as cash in lieu of fractional shares. Because the market price of Sterling common stock is subject to fluctuation, the value of the shares of Sterling common stock that you receive in the merger may increase or decrease prior to and after the merger.

Q3: What is being voted on at the Sterling special meeting?

A3: Sterling shareholders will be asked to vote on the approval of the merger as well as other business that may be properly submitted to a vote at the special meeting or any adjournment or postponement of the special meeting.

Q4: Who is entitled to vote at the Sterling special meeting?

A4: Sterling shareholders of record at the close of business on January 12, 2007, are entitled to receive notice of and to vote on matters that come before the special meeting and any adjournments or postponements of the special meeting. However, a Sterling shareholder may only vote his or her shares if he or she is present in person or is represented by proxy at the special meeting.

Q5: What is being voted on at the Northern Empire special meeting?

A5: Northern Empire shareholders will be asked to vote on the approval of the merger as well as other business that may be properly submitted to a vote at the special meeting or any adjournment or postponement of the special meeting.

Q6: Who is entitled to vote at the Northern Empire special meeting?

A6: Northern Empire shareholders of record at the close of business on January 12, 2007, are entitled to receive notice of and to vote on matters that come before the special meeting and any adjournments or postponements of the special meeting. However, a Northern Empire shareholder may only vote his or her shares if he or she is present in person or is represented by proxy at the special meeting.

Q7: How do I vote?

A7: Please carefully read and consider the information contained in this joint proxy statement/prospectus. Then, please mail your completed and signed proxy card in the enclosed return envelope as soon as possible so that your shares may be voted at the special meeting of shareholders for either Sterling or Northern Empire. You can also vote by telephone or through the Internet by following the instructions on the proxy card. If you hold your shares in street name with a bank or broker, you must instruct the street name holder regarding how to vote your shares, and you must follow the procedures set forth by your street name holder. Sterling or Northern Empire shareholders may also attend their respective special meeting and vote in person. However, even if you are planning to attend the special meeting of either Sterling or Northern Empire, we request that you complete, sign and return your proxy card. For more detailed information, please see the sections entitled The Special Meeting of Sterling Shareholders or The Special Meeting of Northern Empire Shareholders beginning on pages 26 and 30, respectively.

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Q8: How many votes do I have?

A8: Each share of Sterling common stock that you own as of the record date entitles you to one vote. As of the close of business on January 8, 2007, there were 42,085,948 outstanding shares of Sterling common stock. As of that date, 6.08% of the outstanding shares of Sterling common stock was held by directors and executive officers of Sterling and their respective affiliates.

Each share of Northern Empire common stock that you own as of the record date entitles you to one vote. As of the close of business on January 10, 2007, there were 11,013,017 outstanding shares of Northern Empire common stock. As of that date, 15.9% of the outstanding shares of Northern Empire common stock was held by directors and executive officers of Northern Empire and their respective affiliates.

Q9: What constitutes a quorum at Sterling's or Northern Empire's special meeting?

A9: The presence of the holders of a majority of the shares entitled to vote at the Sterling and Northern Empire special meetings constitutes a quorum. Presence may be in person or by proxy. Your shares will be considered part of the quorum if you return a signed and dated proxy card, or if you attend the special meeting in person.

Q10: Why is my vote important?

A10: If you are not present, by proxy or in person, at the special meeting, it will be more difficult for Sterling and Northern Empire to obtain the necessary quorum to hold their respective special meetings. 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 required quorum for the transaction of business at the Sterling and Northern Empire special meetings is a majority of the shares of Sterling and Northern Empire common stock, respectively, outstanding on the record date, represented in person or by proxy. 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. In addition, a majority of the outstanding shares of Northern Empire common stock entitled to vote at the Northern Empire special meeting must approve the merger agreement. 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 either Sterling's or Northern Empire's stock ledger, as applicable) and you sign and return a proxy card 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. If your shares are held in street name with a broker or other street name holder, your street name holder will vote your shares on the merger agreement proposal *only* if you provide instructions to it on how to vote. For Northern Empire shareholders, failure to properly instruct the street name holder or instructions to the street name holder to abstain from voting will have the same effect as a vote against the merger agreement. For Sterling shareholders, failure to properly instruct the street name holder or instructions to the street name holder to abstain from voting will have the effect of reducing the number of votes required to approve the merger agreement.

Q11: What is the recommendation of the Sterling and Northern Empire boards of directors?

A11: The boards of directors of both Sterling and Northern Empire unanimously recommend a vote FOR approval of the merger agreement.

Q12: Has either Sterling or Northern Empire obtained a fairness opinion with respect to the merger?

A12:

Yes. Sterling and Northern Empire each obtained a fairness opinion with respect to the merger. Sterling retained the services of Keefe, Bruyette and Woods, Inc. (KBW), financial services industry consultants. KBW delivered its opinion dated September 17, 2006, to the board of directors of Sterling that, subject to certain assumptions, limitations and qualifications stated therein, the common stock and cash consideration to be given by Sterling in exchange for acquiring Northern Empire was fair to Sterling and its shareholders from a financial point of view. KBW confirmed its fairness opinion as of January 10, 2007. KBW will receive a fee, plus expenses, in connection with its issuance of the fairness opinion. See The Merger

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Opinion of Sterling's Financial Advisor.

Northern Empire retained the services of Sandler O'Neill & Partners, L.P. (Sandler O'Neill), financial services industry consultants. Sandler O'Neill delivered its opinion dated September 15, 2006, to the board of directors of Northern Empire that, subject to certain assumptions, limitations and qualifications stated therein, the consideration to be received by Northern Empire shareholders was fair to Northern Empire shareholders from a financial point of view. Sandler O'Neill confirmed its fairness opinion as of January 10, 2007. Sandler O'Neill will receive a fee, plus expenses, in connection with its issuance of the fairness opinion. See The Merger Opinion of Northern Empire's Financial Advisor.

Q13: What if I return my proxy but do not mark it to show how I am voting?

A13: If your proxy card is signed and returned without specifying your choice, your shares will be voted FOR approval of the merger agreement in accordance with the recommendation of the Sterling or Northern Empire board of directors, as applicable.

Q14: Can I change my vote after I have mailed my signed proxy card?

A14: Yes. You can change your vote by revoking your proxy at any time before it is exercised at the special meeting for either Sterling or Northern Empire. You can revoke your proxy in one of three ways:

notify Sterling's or Northern Empire's corporate secretary, as applicable, in writing before the applicable special meeting that you are revoking your proxy,

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

vote in person at the special meeting.

Q15: What regulatory approvals are required to complete the merger?

A15: 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 Northern Empire is subject to the receipt of prior approval from the Office of Comptroller of Currency, or OCC, the Federal Deposit Insurance Corporation, or FDIC, and the Washington Department of Financial Institutions, or WDFI. Applications for prior approval of the merger by the Federal Reserve Board, the OCC, the FDIC and the WDFI were filed on or about December 11, 2006.

Q16: Do I have dissenters' or appraisal rights with respect to the merger?

A16: Under California law, the shareholders of Northern Empire have dissenters' rights of appraisal under limited circumstances. The provisions of California law regarding dissenters' rights of appraisal are summarized in this proxy statement/prospectus under the heading Dissenters' Rights. In addition, the relevant California statutory provisions regarding dissenters' rights are attached to this document as Appendix D.

The shareholders of Sterling do not have dissenters' or appraisal rights in connection with the proposed acquisition of Northern Empire.

Q17: What are the material U.S. federal income tax consequences of the merger to me?

A17: 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 herein as the Code. As a result, we expect that, for U.S. federal income tax purposes, Northern Empire 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 Northern Empire 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

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section entitled "The Merger - Material United States Federal Income Tax Considerations of the Merger" beginning on page 54 of this joint proxy statement/prospectus.

Q18: What risks should I consider before I vote on the merger?

A18: We encourage you to read carefully the detailed information about Sterling, Northern Empire and the merger contained and incorporated by reference in this document, including the section entitled "Risk Factors" beginning on page 10.

Q19: When do you expect to complete the merger?

A19: We are working to complete the merger by no later than April 2, 2007. We must first obtain the necessary regulatory approvals and the approval of Sterling's and Northern Empire's shareholders at their respective special meetings. 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.

Q20: Whom should I contact with questions or to obtain additional copies of this document?

A20: Sterling Financial Corporation
111 North Wall Street
Spokane, Washington 99201
Attn: Investor Relations
(509) 227-5389

Northern Empire Bancshares
801 Fourth Street
Santa Rosa, California 95404
Attn: Deborah A. Meekins or Jane M. Baker
(707) 579-2265

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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 Sterling and Northern Empire special meetings. See the section entitled "Where You Can Find More Information" beginning on page 82. Unless we have stated otherwise, all references in this document to Sterling are to Sterling Financial Corporation, all references to Northern Empire are to Northern Empire Bancshares, and all references to the merger agreement are to the Agreement and Plan of Merger, dated as of September 17, 2006, between Sterling and Northern Empire, 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 Northern Empire's sole subsidiary, Sonoma National Bank (Sonoma). References to we, us and our in this document mean Sterling and Northern Empire together.

The Companies

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

Sterling Financial Corporation (Sterling) is a bank holding company, the significant operating subsidiaries of which are Sterling Savings Bank and Golf Savings Bank. The principal operating subsidiaries of Sterling Savings Bank are Action Mortgage Company (Action Mortgage), INTERVEST-Mortgage Investment Company (INTERVEST) and Harbor Financial Services, Inc. (Harbor Financial). Sterling Savings Bank commenced operations in 1983 as a Washington State-chartered federally insured stock savings and loan association headquartered in Spokane, Washington. On July 8, 2005, Sterling Savings Bank converted to a commercial bank. The main focus of Golf Savings Bank, a Washington State-chartered savings bank acquired by Sterling in July 2006, is the origination and sale of single-family residential mortgage loans.

Sterling provides personalized, quality financial services and Perfect Fit banking products to its customers consistent with its Hometown Helpful philosophy. Sterling believes that its dedication to personalized service has enabled it to grow both its retail deposit base and its lending portfolio in the western United States. With \$8.91 billion in total assets at September 30, 2006, Sterling originates loans and attracts Federal Deposit Insurance Corporation (FDIC) insured deposits from the general public through 145 financial service centers located throughout the west. In addition, Sterling originates loans through Golf Savings Bank and Action Mortgage residential loan production offices and through INTERVEST commercial real estate lending offices in the west. Sterling also markets fixed income and equity products, mutual funds, fixed and variable annuities and other financial products through Harbor Financial service representatives located throughout Sterling's financial service center network. As of September 30, 2006, Sterling had total assets of \$8.91 billion, net loans receivable of \$6.24 billion, deposits of \$5.95 billion and shareholders' equity of \$608.7 million. On November 30, 2006, Sterling completed the acquisition of FirstBank NW Corp. (FirstBank), which included the merger of FirstBank's wholly owned banking subsidiary with and into Sterling Savings Bank. As of September 30, 2006, FirstBank had total assets of \$884.2 million, net loans receivable of \$671.2 million, deposits of \$633.4 million and shareholders' equity of \$82.8 million. Sterling trades on the Nasdaq Global Select Market under the symbol of STSA.

Northern Empire Bancshares

801 Fourth Street
Santa Rosa, California 95404
Attn: Deborah A. Meekins or Jane M. Baker
(707) 579-2265

Northern Empire was incorporated as a California corporation on June 8, 1982 for the purpose of becoming a bank holding company of Sonoma. Northern Empire is a bank holding company registered under the Bank Holding Company Act of 1956 and is subject to supervision by the Board of Governors of the Federal Reserve System. On

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April 27, 2000, Northern Empire also elected to become a financial holding company under the Gramm-Leach-Bliley Act of 1999. Northern Empire's sole subsidiary is Sonoma and its activities are the commercial banking activities engaged in through Sonoma and some lending through loan participations with Sonoma. As of September 30, 2006, Northern Empire had total assets of \$1.37 billion, net loans receivable of \$1.21 billion, deposits of \$962.1 million and shareholders' equity of \$121.5 million.

Sonoma was organized as a national banking association on March 27, 1984 and commenced operations on January 25, 1985. It currently has twelve banking offices operating in Sonoma, Marin and Contra Costa Counties, California. As a national bank, Sonoma is subject to supervision, regulation and regular examination by the Office of the Comptroller of Currency (OCC). It is also a member of the Federal Reserve System and, as such, is subject to applicable provisions of the Federal Reserve Act and regulations issued thereunder. The deposits of Sonoma are insured by the FDIC, and Sonoma is therefore subject to applicable provisions of the Federal Deposit Insurance Act and regulations of the FDIC. Sonoma is also subject to applicable provisions of California law, insofar as they do not conflict with or are not pre-empted by Federal law. The statutes and regulations administered by these agencies govern most aspects of Sonoma's business, including required reserves against deposits, loans, investments, dividends, deposit insurance premiums, mergers and acquisitions, the establishment of new branches and other banking facilities, disclosure obligations to depositors and borrower and customer privacy.

Sonoma engages in the general commercial banking business. It accepts checking and savings deposits, offers money market deposit accounts and certificates of deposit, makes secured and unsecured commercial, construction, other installment and term loans, and offers other customary banking services. Sonoma makes commercial loans guaranteed by the Small Business Administration, (SBA), which may be sold in the secondary market.

Within Sonoma's Loan Department are groups of lenders specializing in commercial, construction and SBA lending. SBA loans are funded by Sonoma and then Sonoma may, at its option, sell the portion of the loan guaranteed by the SBA (generally 75% to 85% of the total loan amount, depending on the purpose and term of the loan). When a SBA loan is sold, Sonoma retains the unguaranteed portion of that loan and the right to service the loan. Income from loan sales is recorded in non-interest income. The SBA program is subject to budgetary restrictions and other revisions by the government which could have a negative impact on Sonoma's profit. Sonoma is designated as a Preferred Lender by the SBA. This means that it may fund a loan without credit review and underwriting performed by the SBA.

Sonoma's primary market area and source of most of its loan business is Sonoma County, the greater Bay Area in California, and Arizona (mainly in the area surrounding Phoenix). Sonoma has expanded its lending territory for construction loans, commercial real estate loans and loans made under the programs of the SBA. Sonoma has loan production facilities in Phoenix, Arizona and San Rafael, Sacramento, San Francisco and Walnut Creek, California. The primary market area for deposit business is Sonoma and Marin Counties.

The Merger (Page 34)

We propose a merger in which Northern Empire will merge with and into Sterling. The merger agreement also provides that Sterling may elect to merge Sonoma with and into Sterling Savings Bank. As a result of the merger, Northern Empire will cease to exist as a separate corporation, and Sonoma may cease to exist as a separate financial institution.

Immediately after the merger, based on shares of Sterling common stock outstanding as of December 31, 2006, of 42,042,740, former Northern Empire shareholders are expected to own approximately 18% of the outstanding shares of Sterling common stock as a result of the issuance of shares of Sterling common stock to the former Northern Empire shareholders. We expect the merger of Northern Empire and Sterling to be completed by no later than April 2, 2007, after which Northern Empire and Sterling would need to mutually agree to extend the closing date of the

merger.

After careful consideration, the boards of directors of Sterling and Northern Empire unanimously approved and adopted the merger agreement. The Sterling and Northern Empire boards of directors unanimously recommend that the holders of Sterling and Northern Empire common stock, respectively, vote **FOR** approval of the merger agreement.

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Under the terms of the merger agreement, its approval requires the affirmative vote, in person or by proxy, of a majority of the votes cast at the special meeting of Sterling. In addition, approval of the merger agreement requires the affirmative vote, in person or by proxy, of a majority of the outstanding shares of Northern Empire common stock. See the section entitled "The Merger Agreement - Voting Agreements."

Our boards of directors recommend that you vote for the merger (Pages 36 and 47)

The Sterling and Northern Empire boards of directors believe the merger is in the best interests of their respective shareholders. The Sterling board and Northern Empire board have each, by unanimous votes of their members, approved the merger agreement and the transactions contemplated thereby and unanimously recommend that their respective shareholders vote FOR the approval of the merger agreement. In approving and adopting the merger agreement and making their recommendations, the Sterling and Northern Empire boards of directors consulted with their respective senior management as well as their financial and legal advisors and considered a number of strategic, financial and other considerations referred to under the sections entitled "The Merger - Recommendation of the Sterling Board of Directors and Reasons of Sterling for the Merger" and "The Merger - Recommendation of the Northern Empire Board of Directors and Reasons of Northern Empire for the Merger."

Our financial advisors say the merger consideration is fair from a financial point of view (Pages 39 and 48 and Appendices B and C)

In connection with the proposed merger, Northern Empire's board of directors considered a written opinion, dated September 15, 2006 from its financial advisor, Sandler O'Neill, that the consideration to be received by Northern Empire shareholders in the merger was fair from a financial point of view to the Northern Empire shareholders. The opinion was updated as of January 10, 2007. The full text of the written opinion of Sandler O'Neill, as updated, 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.

In connection with the proposed merger, Sterling's board of directors considered a written opinion, dated September 17, 2006 from its financial advisor, KBW, that the consideration to be received by Northern Empire shareholders in the merger was fair from a financial point of view to Sterling and its shareholders. The opinion was updated as of January 10, 2007. The full text of the written opinion of KBW, as updated, is attached as Appendix C 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 53)

At the effective time, by virtue of the merger and without any action on your part, each share of Northern Empire common stock that is issued and outstanding immediately prior to the effective time will be converted into the right to receive 0.8050 shares of Sterling common stock and \$2.71 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 receive in the merger may increase or decrease prior to and after the merger. Furthermore, at the effective date of the merger, Northern Empire options to purchase Northern Empire common stock held by Northern Empire employees and directors will be converted into options to purchase Sterling common stock at a fixed exchange ratio of 0.8873. As of January 8, 2007, there were outstanding options to purchase an aggregate of 707,431 shares of Northern Empire common stock at a weighted average exercise price of \$10.80 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 Northern Empire 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 Northern Empire shareholders will be unrestricted, publicly tradable stock.

Table of Contents**Northern Empire shareholders will own approximately 18% of the outstanding shares of Sterling common stock after the merger (Page 53)**

The maximum number of shares that will be issued by Sterling in the merger has been fixed at 9,434,960 shares. Based on the number of shares of Sterling common stock and Northern Empire common stock outstanding as of December 31, 2006, Northern Empire shareholders are expected to collectively own up to approximately 18% 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 19)

Sterling common stock is listed on the Nasdaq Global Select Market under the symbol STSA. Northern Empire common stock is traded on The Nasdaq Global Market under the symbol NREB.

The following table sets forth the last reported sale prices per share of Sterling common stock and Northern Empire common stock and the equivalent price per Northern Empire share, giving effect to the merger on (i) September 15, 2006, the last trading day preceding public announcement of the signing of the merger agreement and (ii) January 8, 2007, the latest practicable trading day for which information was available prior to the date of this joint proxy statement/prospectus.

| | Sterling Common Stock | Northern Empire Common Stock | Equivalent Price per Northern Empire Share |
|--------------------|--------------------------------------|---|---|
| September 15, 2006 | \$ 33.04 | \$ 23.98 | \$ 29.31 |
| January 8, 2007 | \$ 33.47 | \$ 29.35 | \$ 29.65 |

The equivalent price per share data for Northern Empire common stock is the sum of (i) the last reported sale price of a share of Sterling common stock on the date indicated in the table multiplied by 0.8050, the number of Sterling shares to be issued in the merger for each outstanding share of Northern Empire common stock, plus (ii) \$2.71, the amount of cash to be paid in the merger for each outstanding share of Northern Empire 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 Northern Empire share received by shareholders at the effective time may be more or less than the equivalent price per Northern Empire share indicated in the table. See the section entitled "Risk Factors - Our stock price can be volatile."

Northern Empire's directors and executive officers have interests in the merger that differ from, or are in addition to, your interests in the merger (Page 57)

You should be aware that some of the directors and executive officers of Northern Empire have interests in the merger that are different from, or are in addition to, the interests of Northern Empire 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 Northern Empire officers and directors by Sterling. The Northern Empire 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 54)

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, Northern Empire shareholders generally will not recognize any of the gain or loss in their Northern Empire 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 Northern Empire common stock exchanged in the merger or

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(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 54 of this joint proxy statement/prospectus.

Tax matters are very complicated and the consequences of the merger to any particular Northern Empire shareholder will depend on that shareholder's particular facts and circumstances. Northern Empire 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 19)

After the merger, you will receive dividends, if any, that Sterling pays on its common stock. Sterling paid quarterly cash dividends consisting of \$0.055 per share on January 13, 2006, \$0.06 per share on April 13, 2006, \$0.065 per share on July 14, 2006, and \$0.07 on October 13, 2006. On October 24, 2006, Sterling issued a press release announcing a quarterly cash dividend of \$0.075 per share of common stock payable to shareholders of record as of December 29, 2006. The dividend is expected to be paid on January 12, 2007.

Accounting treatment (Page 56)

The merger will be accounted for as an acquisition of Northern Empire 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 54)

In order to complete the merger, Sterling must first obtain the prior written approval of the Federal Reserve Board. The acquisition of Northern Empire is also subject to the receipt of prior approval from the OCC, the FDIC and the WDFI. Applications for prior approval of the merger by the Federal Reserve Board, the OCC, the FDIC and the WDFI were filed on or about December 11, 2006.

Northern Empire shareholders have limited dissenters' rights of appraisal (Page 78)

The shareholders of Northern Empire have dissenters' rights of appraisal under limited circumstances. Under California law, no dissenters' rights are available for shares, such as Northern Empire's, that are listed on the Nasdaq National Market unless there exists with respect to such shares any restriction on transfer imposed by Northern Empire or by any law or regulation, or unless demands for payment are filed with respect to 5% or more of the outstanding shares.

If you dissent from the merger agreement and the conditions outlined above are met, then your shares of Northern Empire will not be exchanged for a combination of shares of Sterling common stock and cash in the merger. Your only right will be to receive the fair value of your common stock as determined by mutual agreement between you and Northern Empire 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 Northern Empire common stock without giving effect to the merger. If you exercise dissenters' rights, any cash you receive for your Northern Empire 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 California law. If your shares are held in street name, and you wish to exercise dissenter's rights, it is very important that you instruct the street name holder, in a timely manner, that your shares are to be voted AGAINST the merger or, in the alternative, that you request, in a timely manner, a proxy from your street name holder that enables you to attend the special meeting and vote your shares in person.

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A shareholder electing to dissent from the merger agreement must strictly comply with all procedures required under California law. These procedures are described more fully beginning on page 78 of this joint proxy statement/prospectus under the caption Dissenters Rights, and a copy of the relevant California statutory provisions regarding dissenters rights is included as Appendix D to this joint proxy statement/prospectus.

The merger agreement (Page 60)

The merger agreement is described beginning on page 61. The merger agreement is also 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 requisite vote of the Sterling and Northern Empire shareholders, respectively;

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 Northern Empire and Sterling, except those that would not have or are not reasonably likely to have a material adverse effect on Sterling or Northern Empire, respectively;

performance in all material respects by Northern Empire and Sterling of all obligations required to be performed by each of them under the merger agreement;

the continued effectiveness of voting agreements entered into by the eleven directors and/or executive officers of Northern Empire and Sonoma: Clement C. Carinalli, Dennis R. Hunter, James B. Keegan, Jr., William E. Geary, Patrick R. Gallaher, Michael Wright, Kevin Carinalli, Deborah A. Meekins, David Titus, Jane M. Baker, and Joann Barton; and

receipt by Sterling of resignations from each director of Northern Empire and of Sonoma.

Where the law permits, either Sterling or Northern Empire may, but is not obligated to, elect to waive a condition to its obligation to complete the merger. We cannot be certain when (or if) the conditions to the merger will be satisfied or waived, and there is no guarantee that the merger will be completed.

In addition, after Northern Empire's shareholders have approved 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 Northern Empire shareholders in the merger without the approval of Northern Empire shareholders as required by law.

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

Northern Empire and Sterling, by mutual consent, can agree at any time not to complete the merger, even if the shareholders of Northern Empire and/or Sterling 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;

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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 on or before April 2, 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 Sterling or Northern Empire contemplated by the merger agreement is not obtained by reason of the failure to obtain the vote required at the Sterling or Northern Empire special meeting, provided, however, that Northern Empire will not have a right to terminate the merger agreement if failure to obtain the vote required was caused by Northern Empire or a party to a voting agreement entered into in connection with the merger agreement.

Sterling, without the consent of Northern Empire, can terminate:

if the board of directors of Northern Empire fails to recommend to its shareholders the approval of the merger, or changes, or publicly announces its intention to change its recommendation and the shareholders of Northern Empire fail to approve the merger at the Northern Empire special meeting; or

if a tender offer or exchange offer for 25% or more of the outstanding shares of Northern Empire common stock is commenced (other than by Sterling or a subsidiary thereof), and the board of directors of Northern Empire recommends that the shareholders of Northern Empire 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.

Northern Empire, 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 \$27.97 and the Sterling common stock price has also declined from a price of \$32.91 per share such that the percentage decline of the Sterling common stock price from \$32.91 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. However, Sterling would then have the option to avoid the termination by increasing the consideration paid to Northern Empire shareholders, as provided in the merger agreement.

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

Northern Empire must pay Sterling a termination fee of \$12.5 million if Sterling terminates the merger agreement and elects to receive the fee as a result of: (i) the Northern Empire board of directors failing to

recommend the approval of the merger or changing or publicly announcing its intention to change its recommendation and the Northern Empire shareholders failing to approve the merger; (ii) Northern Empire breaching its nonsolicitation or related obligations as provided in the merger agreement; or (iii) the board of directors recommending that Northern Empire shareholders tender their shares in a tender or exchange offer or failing to recommend that the Northern Empire shareholders reject such an offer.

Northern Empire must pay Sterling a termination fee of \$3.0 million (which amount may be increased to \$12.5 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 Northern Empire of any of the covenants and agreements or representations or warranties it made in the merger agreement, such that any of its closing

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conditions would not be satisfied by the closing date, and the breach is not cured within 30 days following written notice to Northern Empire, or which breach, by its nature, cannot be cured prior to the closing date; and

Sterling must pay Northern Empire a termination fee of \$3.0 million if Northern Empire 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 75)

The conversion of your shares of Northern Empire common stock into the right to receive shares of Sterling common stock in the merger will result in differences between your rights as a Northern Empire shareholder, which are governed by the California Corporations Code and Northern Empire's articles of incorporation and bylaws, and your rights as a Sterling shareholder, which are governed by the Washington Business Corporation Act and Sterling's amended and restated articles of incorporation and bylaws.

Sterling's Special Meeting (Page 26)

Meeting Information and Vote Requirements

The special meeting of Sterling's shareholders will be held on February 21, 2007, at 10:00 A.M., local time, at the 4th Floor Boardroom, Sterling Financial Corporation, 111 North Wall Street, Spokane, Washington, unless adjourned or postponed. At this meeting, Sterling's shareholders will be asked to:

1. approve the merger agreement;
2. approve any proposal of the Sterling board of directors to adjourn or postpone the special meeting; and
3. act on any other business that may be properly submitted to a vote at the special meeting or any adjournments or postponements of the special meeting.

You may vote at the special meeting if you owned Sterling common stock as of the close of business on January 12, 2007. You may cast one vote for each share of Sterling common stock you owned at that time.

The required quorum for the transaction of business at the special meeting is a majority of the shares of Sterling common stock outstanding on the record date, represented in person or by proxy. 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. The affirmative vote of the holders of a majority of the outstanding shares of Sterling common stock present in person or by proxy and voting on the matter may authorize the adjournment or postponement of the special 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.

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Northern Empire's Special Meeting (Page 30)

Meeting Information and Vote Requirements

The special meeting of Northern Empire's shareholders will be held on February 20, 2007, at 5:00 p.m., local time, at 801 Fourth Street, Santa Rosa, California, unless adjourned or postponed. At this meeting, Northern Empire's shareholders will be asked to:

1. approve the merger agreement;
2. approve any proposal of the Northern Empire board of directors to adjourn or postpone the special meeting; and
3. act on any other business that may be properly submitted to a vote at the special meeting or any adjournments or postponements of the special meeting.

You may vote at the special meeting if you owned Northern Empire common stock as of the close of business on January 12, 2007. You may cast one vote for each share of Northern Empire common stock you owned at that time.

Approval of the merger agreement requires the affirmative vote of the holders of a majority of the outstanding shares of Northern Empire common stock. The affirmative vote of the holders of a majority of the outstanding shares of Northern Empire common stock present in person or by proxy and voting on the matter may authorize the adjournment or postponement of the special 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.

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RISK FACTORS

*By voting in favor of the merger, you will be choosing to invest in the common stock of Sterling, into which Northern Empire will merge under the terms of the merger agreement. An investment in the combined company's common stock contains a high degree of risk. In addition to the other information included in this joint proxy statement/prospectus, including the matters addressed in the section entitled **Cautionary Statement Regarding Forward-Looking Statements** on page 14, 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, Northern Empire shareholders cannot be sure of the value of the merger consideration they will receive.

Upon completion of the merger, each share of Northern Empire common stock will be converted into the right to receive merger consideration equal to 0.8050 shares of Sterling common stock and \$2.71 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 Northern Empire shareholders will receive upon completion of the merger. Accordingly, at the time of the Northern Empire special meeting and prior to the closing of the merger, Northern Empire 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 Northern Empire 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 Northern Empire'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 Northern Empire 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 Northern Empire'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 differences in standards, controls, procedures and policies. Estimated cost savings and revenue enhancements are projected to come from 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, or if Sterling's estimates and/or projections are incorrect, 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 Northern Empire and/or may not realize expected cost savings from the merger within the expected time frame. The fairness opinion obtained by Northern Empire from its financial advisor will not reflect changes in circumstances between the date of this joint proxy statement/prospectus and the time the

merger is completed.

The fairness opinions obtained by Sterling and Northern Empire from their financial advisors will not reflect changes in circumstances between the date of this joint proxy statement/prospectus and the completion of the merger.

Changes in the operations and prospects of Sterling or Northern Empire's general market and economic conditions, and other factors that may be beyond the control of Sterling and Northern Empire and on which the

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fairness opinions of KBW and Sandler O'Neill were based, may alter the value of Sterling or Northern Empire or the market prices of shares of Sterling common stock or Northern Empire common stock by the time the merger is completed. The opinions do not speak as of the time the merger will be completed or as of any date other than the dates of such opinions. Because neither Sterling nor Northern Empire currently anticipate asking its respective financial advisor to update its opinion as of the closing, the KBW and Sandler O'Neill opinions, as updated as of the date of this joint proxy statement/prospectus, do 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 Sterling received from its financial advisor, please refer to *The Merger Opinion of Sterling's Financial Advisor*. For a description of the opinion that Northern Empire received from its financial advisor, please refer to *The Merger Opinion of Northern Empire's Financial Advisor*. For a description of other factors considered by the board of directors of Sterling in determining to approve the merger, please refer to *The Merger Recommendation of the Sterling Board of Directors and Reasons for the Merger*. For a description of other factors considered by the board of directors of Northern Empire in determining to approve the merger, please refer to *The Merger Recommendation of the Northern Empire Board of Directors and Reasons for the Merger*.

The merger agreement limits Northern Empire's ability to pursue alternatives to the merger.

The merger agreement contains non-solicitation provisions that, subject to limited exceptions, limit Northern Empire's ability to discuss, facilitate or commit to competing third-party proposals to acquire all or a significant part of Northern Empire. Although Northern Empire'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 Northern Empire 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 \$12.5 million. See *The Merger Termination of the Merger Agreement and Termination Fee*. These provisions might discourage a potential competing acquiror with an interest in acquiring all or a significant part of Northern Empire 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 with Sterling, or might result in a potential competing acquiror proposing to pay a lower per share price to acquire Northern Empire than it might otherwise have proposed to pay.

Northern Empire'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 Northern Empire's directors and executive officers might have interests in the merger that are different from, or in addition to, the interests of Northern Empire shareholders generally. See the section entitled *The Merger Interests of Certain Persons in the Merger*. Northern Empire'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 Northern Empire 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 mean Sterling and its subsidiaries on a consolidated basis.

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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.

We have shifted our focus to commercial banking.

We are increasing our business, consumer and construction lending, while placing an increased emphasis on attracting greater volumes of retail deposits. Business, 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 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, consumer and construction loans will offset higher levels of expense and losses on such loans.

We have a high concentration of loans secured by real estate.

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 September 30, 2006, approximately 31% of Sterling Savings Bank's total loan portfolio consisted of construction loans, approximately 35% of which were for speculative endeavors. Additionally, at September 30, 2006, 18% of Sterling Savings Bank's loan portfolio consisted of multifamily residential and commercial property loans. A reduction in the demand for new construction or multifamily residential and commercial property loans or a decline in residential or commercial real estate values could have a negative impact on Sterling Savings Bank. At September 30, 2006, \$1.20 billion, or 98% of Sonoma's loans, were secured by real estate as the principal source of collateral. A decline in real estate values could have an adverse effect on our financial condition.

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.

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The banking authorities have recently adopted final Guidance entitled "Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices." The Guidance applies to institutions that have a high concentration of real estate and related loans in their portfolio. The Guidance provides that such institutions may be required in the future to maintain higher capital ratios than other institutions with lower such concentrations. Based on the Guidance as adopted, we may be subject to increased regulatory oversight and guidance. While Sterling believes that the combined company following the merger will be well capitalized under current policies of the banking authorities, we could become subject to higher capital requirements under the Guidance.

Changes in Federal Home Loan Bank (FHLB) borrowing policies may affect our funding ability and financial results.

Sonoma relies upon advances from the FHLB for a large portion of the funding for its loans. FHLB advances are collateralized by loan assets. At September 30, 2006, the total amount of FHLB advances to Sonoma were \$274.4 million. Based upon the current policies of the FHLB, we believe the advances are renewable. Changes in the requirements of the FHLB could materially affect our business and financial statements, and changes in the rates or duration of advances could make them less advantageous.

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 our 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 western region.

There are risks associated with integrating acquisitions.

On July 5, 2006, Sterling completed the acquisition of Golf Savings Bank and on November 30, 2006 Sterling completed the acquisition of FirstBank. Risks associated with the integration of multiple acquisitions within a relatively short time period that may affect Sterling include, without limitation: the businesses might not be combined successfully, or such combination may take longer, be more difficult, time-consuming or costly to accomplish than expected; the expected growth opportunities and cost savings from the acquisitions may not be fully realized or may

take longer to realize than expected; operating costs, customer losses and business disruption following the acquisitions, including adverse effects on relationships with employees, may be greater than expected; adverse governmental or regulatory policies may be enacted; the interest rate environment may further

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compress margins and adversely affect net interest income; results may be adversely affected by continued diversification of assets and adverse changes to credit quality; competition from other financial services companies in Sterling's markets could adversely affect operations; and an economic slowdown could adversely affect credit quality and loan originations.

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 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 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 are expanding our lending activities in riskier areas.

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

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 Northern Empire, 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. 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. This will enable Sterling to offer additional shares of common and/or preferred stock for such consideration, on such terms and at such times as is determined by Sterling's board of directors.

There are 60,000,000 shares of Sterling common stock authorized, of which 42,085,948 shares were outstanding as of January 8, 2007, including 4,822,120 shares issued to the shareholders of FirstBank in connection with Sterling's acquisition of FirstBank completed on November 30, 2006. As a result of the merger of Sterling and Northern Empire, a maximum of 9,434,960 shares of Sterling common stock may be issued to Northern Empire shareholders.

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 Northern Empire 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

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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 Northern Empire'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 Northern Empire'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 collateral values, 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 10 and in Sterling's and Northern Empire'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 NORTHERN EMPIRE OR ANY PERSON ACTING ON BEHALF OF STERLING OR NORTHERN EMPIRE ARE EXPRESSLY QUALIFIED IN THEIR ENTIRETY BY THE CAUTIONARY STATEMENTS ABOVE. NEITHER STERLING NOR NORTHERN EMPIRE 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 nine months ended September 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 nine months ended September 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 81.

| Statement | Nine Months Ended Sept 30, | | Years Ended December 31, | | | | |
|-------------------------|--|------------|--------------------------|------------|------------|------------|------------|
| | 2006 | 2005 | 2005 | 2004 | 2003 | 2002 | 2001 |
| | (Dollars in thousands, except per share amounts) | | | | | | |
| Income | \$ 391,107 | \$ 281,896 | \$ 387,811 | \$ 319,761 | \$ 214,727 | \$ 197,313 | \$ 200,000 |
| Expense | (201,069) | (122,176) | (171,276) | (122,945) | (89,807) | (96,965) | (110,000) |
| Invest income | 190,038 | 159,720 | 216,535 | 196,816 | 124,920 | 100,348 | 80,000 |
| Provision for losses on | (13,998) | (10,550) | (15,200) | (12,150) | (10,500) | (11,867) | (10,000) |
| Invest income | | | | | | | |
| Provision for | | | | | | | |
| Loans | 176,040 | 149,170 | 201,335 | 184,666 | 114,420 | 88,481 | 70,000 |
| Invest income | 46,498 | 43,350 | 59,569 | 47,799 | 33,735 | 29,080 | 20,000 |
| Goodwill acquisition | (191) | 0 | 0 | (4,835) | (792) | 0 | 0 |
| Amortization of | | | | | | | |
| Intangible and core | (1,697) | (1,667) | (2,222) | (2,222) | (262) | (644) | (1,000) |
| Litigation | (245) | (189) | (179) | (141) | (600) | (1,100) | (1,000) |
| Interest expenses | (144,398) | (121,992) | (167,880) | (141,172) | (92,910) | (79,199) | (60,000) |
| Income before income | 76,007 | 68,672 | 90,623 | 84,095 | 53,591 | 36,618 | 20,000 |
| Tax provision | (24,321) | (22,883) | (29,404) | (27,790) | (18,678) | (11,031) | (10,000) |
| Income | \$ 51,686 | \$ 45,789 | \$ 61,219 | \$ 56,305 | \$ 34,913 | \$ 25,587 | \$ 10,000 |

| | | | | | | | | | | | | | |
|------------------|----|------------|----|------------|----|------------|----|------------|----|------------|----|------------|----|
| per share: | \$ | 1.45 | \$ | 1.32 | \$ | 1.77 | \$ | 1.66 | \$ | 1.45 | \$ | 1.19 | \$ |
| | | 1.44 | | 1.31 | | 1.75 | | 1.62 | | 1.42 | | 1.16 | |
| ends | | | | | | | | | | | | | |
| per share | \$ | 0.195 | \$ | 0.050 | \$ | 0.105 | \$ | 0.000 | \$ | 0.000 | \$ | 0.000 | \$ |
| l average | | | | | | | | | | | | | |
| tstanding: | | | | | | | | | | | | | |
| | | 35,645,887 | | 34,581,606 | | 34,633,952 | | 33,931,509 | | 23,980,113 | | 21,496,008 | |
| | | 35,992,764 | | 35,033,011 | | 35,035,029 | | 34,708,794 | | 24,590,172 | | 22,115,723 | |
| l Ratios: | | | | | | | | | | | | | |
| ue per share | \$ | 16.44 | \$ | 14.39 | \$ | 14.54 | \$ | 13.65 | \$ | 10.21 | \$ | 9.38 | \$ |
| n average | | | | | | | | | | | | | |
| | | 0.85% | | 0.88% | | 0.87% | | 0.88% | | 0.88% | | 0.80% | |
| n average | | | | | | | | | | | | | |
| ers equity | | 12.9% | | 12.5% | | 12.4% | | 13.2% | | 14.4% | | 13.9% | |
| ers equity to | | | | | | | | | | | | | |
| ts | | 6.8% | | 7.4% | | 6.7% | | 6.8% | | 5.9% | | 5.8% | |
| g efficiency | | 61.9% | | 61.0% | | 61.7% | | 60.7% | | 59.6% | | 62.5% | |
| est margin | | 3.29% | | 3.27% | | 3.28% | | 3.32% | | 3.35% | | 3.37% | |
| orming assets | | | | | | | | | | | | | |
| assets | | 0.21% | | 0.17% | | 0.11% | | 0.20% | | 0.50% | | 0.59% | |

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**Nine Months
Ended Sept 30,
2006 2005 2005 2004 2003 2002 2001**
(Dollars in thousands, except per share amounts)

Statistical Data:

Number of:

| | | | | | | | |
|----------------------------------|-------|-------|-------|-------|-------|-----|-----|
| Employees (full-time equivalent) | 2,100 | 1,770 | 1,789 | 1,624 | 1,121 | 953 | 890 |
| Full service branches | 145 | 138 | 140 | 135 | 86 | 79 | 77 |

**Nine Months Ended
September 30,
2006 2005 2005 2004 2003 2002 2001**
(Dollars in thousands, except per share amounts)

| | | | | | | | |
|--|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Reported net income | \$ 51,686 | \$ 45,789 | \$ 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 | \$ 51,686 | \$ 45,789 | \$ 61,219 | \$ 56,305 | \$ 34,913 | \$ 25,587 | \$ 18,726 |

Basic earnings per share:

| | | | | | | | |
|-----------------------|---------|---------|---------|---------|---------|---------|---------|
| Reported net income | \$ 1.45 | \$ 1.32 | \$ 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 | \$ 1.45 | \$ 1.32 | \$ 1.77 | \$ 1.66 | \$ 1.45 | \$ 1.19 | \$ 0.94 |
|---------------------|---------|---------|---------|---------|---------|---------|---------|

Diluted earnings per share:

| | | | | | | | |
|-----------------------|---------|---------|---------|---------|---------|---------|---------|
| Reported net income | \$ 1.44 | \$ 1.31 | \$ 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 | \$ 1.44 | \$ 1.31 | \$ 1.75 | \$ 1.62 | \$ 1.42 | \$ 1.16 | \$ 0.92 |
|---------------------|---------|---------|---------|---------|---------|---------|---------|

**September 30,
2006 2005 2005 2004 2003 2002 2001**
(Dollars in thousands)

Balance Sheet Data:

| | | | | | | | |
|---|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Assets | \$ 8,912,717 | \$ 6,796,048 | \$ 7,558,928 | \$ 6,942,224 | \$ 4,279,321 | \$ 3,507,021 | \$ 3,038,000 |
| Accounts receivable, net | 6,240,512 | 4,287,684 | 4,885,916 | 4,251,877 | 2,906,426 | 2,390,422 | 2,109,000 |
| Investments in equity-backed securities | 1,746,734 | 1,798,849 | 1,960,582 | 2,036,920 | 983,736 | 743,610 | 617,000 |
| Other investments | 201,870 | 166,154 | 167,957 | 167,665 | 89,448 | 86,558 | 76,000 |
| Loans | 5,953,767 | 4,390,757 | 4,806,301 | 3,863,296 | 2,455,076 | 2,014,096 | 1,853,000 |
| Seattle advances | 1,373,513 | 1,266,874 | 1,443,462 | 1,635,933 | 1,026,031 | 874,515 | 633,000 |
| Other | 623,612 | 461,594 | 611,676 | 780,012 | 363,137 | 249,769 | 218,000 |

| | | | | | | | |
|--------------------|---------|---------|---------|---------|---------|---------|---------|
| repurchase | | | | | | | |
| ents and funds | | | | | | | |
| ed | | | | | | | |
| orrowings | 237,222 | 110,683 | 110,688 | 131,822 | 137,998 | 127,682 | 127,682 |
| olders equity | 608,721 | 499,683 | 506,685 | 469,844 | 250,348 | 203,656 | 165,000 |
| Ratios(2): | | | | | | | |
| o risk-weighted | | | | | | | |
| | 10.9% | 11.1% | 10.5% | N/A | N/A | N/A | N/A |
| Savings Bank | 10.7% | 10.9% | 10.2% | 10.7% | 10.9% | 11.0% | 11.0% |
| Savings Bank | 11.3% | N/A | N/A | N/A | N/A | N/A | N/A |
| o risk-weighted | | | | | | | |
| | 9.9% | 10.0% | 9.5% | N/A | N/A | N/A | N/A |
| Savings Bank | 9.7% | 9.8% | 9.2% | 9.7% | 9.9% | 10.0% | 10.0% |
| Savings Bank | 10.7% | N/A | N/A | N/A | N/A | N/A | N/A |
| verage (to average | | | | | | | |
| | 8.1% | 7.7% | 7.4% | N/A | N/A | N/A | N/A |
| Savings Bank | 8.1% | 7.4% | 7.2% | 6.6% | 7.4% | 7.6% | 7.6% |
| Savings Bank | 5.9% | N/A | N/A | N/A | N/A | N/A | N/A |

- (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. Golf Savings Bank's capital ratios have not been disclosed for periods prior to Sterling's acquisition of Golf Savings Bank in July 2006.

Table of Contents**SELECTED CONSOLIDATED FINANCIAL INFORMATION OF NORTHERN EMPIRE**

Northern Empire is providing the following information to aid you in your analysis of the financial aspects of the merger. Northern Empire 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 Northern Empire has presented in its prior filings with the SEC. The historical consolidated financial data for the nine months ended September 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 nine months ended September 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 Northern Empire's consolidated financial statements and notes thereto contained in Northern Empire'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 81.

| Statement | Nine Months Ended Sept 30, | | Years Ended December 31, | | | | 2001 |
|-------------------------|--|-----------|--------------------------|-----------|-----------|-----------|-----------|
| | 2006 | 2005 | 2005 | 2004 | 2003 | 2002 | |
| | (Dollars in thousands, except per share amounts) | | | | | | |
| Income | \$ 69,567 | \$ 54,101 | \$ 74,338 | \$ 54,402 | \$ 44,732 | \$ 41,456 | \$ 41,456 |
| Expense | (33,293) | (20,120) | (28,646) | (15,286) | (13,924) | (15,841) | (15,841) |
| Net income | 36,274 | 33,981 | 45,692 | 39,116 | 30,808 | 25,615 | 25,615 |
| Provision for losses on | (1,400) | (1,650) | (2,250) | (1,550) | (900) | (840) | (840) |
| Net income | | | | | | | |
| Provision for | | | | | | | |
| Loans | 34,874 | 32,331 | 43,442 | 37,566 | 29,908 | 24,775 | 24,775 |
| Net income | 3,550 | 3,198 | 4,392 | 2,862 | 2,894 | 2,334 | 2,334 |
| Net expenses | (15,397) | (14,085) | (18,514) | (16,640) | (14,165) | (11,678) | (11,678) |
| Income before income | | | | | | | |
| tax provision | 23,027 | 21,444 | 29,320 | 23,788 | 18,637 | 15,431 | 15,431 |
| | (9,346) | (8,806) | (12,073) | (9,468) | (7,366) | (6,096) | (6,096) |
| Income | \$ 13,681 | \$ 12,638 | \$ 17,247 | \$ 14,320 | \$ 11,271 | \$ 9,335 | \$ 9,335 |
| per share: | | | | | | | |
| | \$ 1.25 | \$ 1.16 | \$ 1.58 | \$ 1.33 | \$ 1.10 | \$ 0.92 | \$ 0.92 |
| | 1.21 | 1.11 | 1.52 | 1.18 | 0.97 | 0.81 | 0.81 |
| | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 |

| | | | | | | | |
|--------------------------|------------|------------|------------|------------|------------|------------|------------|
| Dividends | | | | | | | |
| per share | | | | | | | |
| and average | | | | | | | |
| outstanding: | 10,933,702 | 10,890,334 | 10,896,884 | 10,780,141 | 10,202,012 | 10,150,714 | 10,120,000 |
| | 11,310,776 | 11,366,085 | 11,370,323 | 12,181,860 | 11,671,815 | 11,534,279 | 11,030,000 |
| Financial Ratios: | | | | | | | |
| Return on assets | \$ 11.10 | \$ 9.41 | \$ 9.83 | \$ 8.27 | \$ 6.45 | \$ 5.29 | \$ 5.29 |
| Return on average | 1.40% | 1.45% | 1.47% | 1.49% | 1.52% | 1.50% | 1.50% |
| Return on average | 15.8% | 17.4% | 17.3% | 18.2% | 18.8% | 18.9% | 18.9% |
| Return on equity | 8.9% | 8.4% | 8.7% | 8.3% | 7.8% | 7.8% | 7.8% |
| Return on equity to | 36.0% | 37.9% | 37.0% | 39.6% | 42.0% | 41.8% | 41.8% |
| assets | 3.79% | 4.01% | 3.99% | 4.20% | 4.25% | 4.23% | 4.23% |
| forming assets | 0.04% | 0.09% | 0.05% | 0.10% | 0.15% | 0.44% | 0.44% |
| assets | | | | | | | |
| Operational Data: | | | | | | | |
| Employees (full-time) | 184 | 166 | 172 | 153 | 142 | 128 | 128 |
| Service branches | 12 | 11 | 11 | 8 | 7 | 7 | 7 |

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| | September 30, | | December 31, | | | | |
|-------------------------------------|------------------------|--------------|--------------|--------------|------------|------------|------------|
| | 2006 | 2005 | 2005 | 2004 | 2003 | 2002 | 2001 |
| | (Dollars in thousands) | | | | | | |
| Balance Sheet Data: | | | | | | | |
| Total assets | \$ 1,365,356 | \$ 1,217,101 | \$ 1,231,734 | \$ 1,080,924 | \$ 848,226 | \$ 689,380 | \$ 561,004 |
| Loans receivable, net | 1,210,855 | 1,051,476 | 1,090,772 | 938,104 | 733,857 | 586,461 | 466,529 |
| Investments | 16,289 | 62,194 | 62,385 | 10,356 | 6,758 | 3,557 | 1,760 |
| Deposits | 962,121 | 898,554 | 888,027 | 791,025 | 658,320 | 577,585 | 502,137 |
| FHLB San Francisco advances | 274,351 | 210,389 | 230,379 | 191,912 | 119,211 | 54,776 | 11,802 |
| Shareholders equity | 121,506 | 102,675 | 107,307 | 89,878 | 67,533 | 53,738 | 44,297 |
| Capital Ratios: | | | | | | | |
| Total (to risk-weighted assets) | | | | | | | |
| Northern Empire Bancshares | 11.9% | 12.2% | 12.2% | 12.1% | 11.7% | 11.6% | 12.1% |
| Sonoma National Bank | 10.9% | 11.0% | 11.1% | 10.8% | 11.4% | 11.5% | 12.1% |
| Tier I (to risk-weighted assets) | | | | | | | |
| Northern Empire Bancshares | 10.8% | 11.1% | 11.0% | 11.1% | 10.6% | 10.3% | 10.9% |
| Sonoma National Bank | 9.8% | 9.9% | 9.9% | 9.7% | 10.3% | 10.3% | 10.8% |
| Tier I leverage (to average assets) | | | | | | | |
| Northern Empire Bancshares | 9.0% | 8.5% | 8.8% | 8.6% | 8.4% | 7.9% | 8.0% |
| Sonoma National Bank | 8.2% | 7.6% | 7.9% | 7.6% | 8.2% | 7.8% | 8.0% |

MARKET PRICE DATA AND DIVIDEND INFORMATION**Comparative Market Price Information**

The following table presents trading information for Sterling common stock on the Nasdaq Global Select Market System and Northern Empire common stock on the Nasdaq Global Market System on September 15, 2006, the last trading day prior to the announcement of the signing of the merger agreement, and on January 8, 2007, the latest practicable trading day for which information was available prior to the date of this joint proxy statement/prospectus.

| | Closing Sales Price | |
|--|---------------------|-------------------------------|
| | Sterling | Northern Empire Equivalent(1) |

**Northern
Empire**

| | | | | |
|--------------------|----------|----|-------|----------|
| Price per share: | | | | |
| September 15, 2006 | \$ 33.04 | \$ | 23.98 | \$ 29.31 |
| January 8, 2007 | \$ 33.47 | \$ | 29.35 | \$ 29.65 |

- (1) The equivalent price per share data for Northern Empire common stock is the sum of (i) the last reported sale price of a share of Sterling common stock on September 15, 2006 multiplied by 0.8050, the number of Sterling shares to be issued in the merger for each outstanding share of Northern Empire common stock, plus (ii) \$2.71, the amount of cash to be paid in the merger for each outstanding share of Northern Empire common stock.

You should obtain current market quotations for Sterling and Northern Empire 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 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. As of January 8, 2007, there were 42,085,948 outstanding shares of Sterling common stock held by approximately 2,021 shareholders of record.

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The board of directors of Sterling from time to time evaluates the payment of cash dividends. If the merger is completed, dividends will be paid only as and when declared by the Sterling board of directors. 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 has paid the following cash dividends:

| Date Paid | Per Share 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 |
| October 2006 | 0.070 | 2.6 million |

On October 24, 2006, Sterling announced a quarterly cash dividend of \$0.075 per share of common stock payable to shareholders of record as of December 29, 2006. The dividend is expected to be paid on January 12, 2007.

Northern Empire

Since May 2005, Northern Empire common stock has been listed on the Nasdaq Global Market System under the symbol NREB. Prior to that time, the stock was traded on the over-the-counter market. As of January 10, 2007, there were 11,013,017 outstanding shares of Northern Empire common stock held by approximately 213 holders of record.

Northern Empire last paid a cash dividend in March 1995, and it has paid a 5% stock dividend in each year beginning in 1995 through and including 2006. Two-for-one stock splits were effected in August 1998 and in December 2003. If the merger is not completed, shareholders of Northern Empire will continue to receive dividends only as and when declared by the Northern Empire board of directors. The timing and amount of any future dividends by Northern Empire will depend upon earnings, cash requirements, capital requirements, the financial condition of Northern Empire and its subsidiaries, applicable government regulations and other factors deemed relevant by Northern Empire's board of directors.

Sterling and Northern Empire Quarterly Stock Price and Dividend Paid Information.

The following table sets forth for the calendar quarters indicated, the high and low sales prices per share of Sterling and Northern Empire common stock, as reported on the NASDAQ Global Select Market System and the NASDAQ Global Market System, respectively, as well as historical cash dividends paid during the same period.

| | Sterling Common Stock | | | Northern Empire Common Stock | | |
|----------------------------|----------------------------------|------------|------------------|---|------------|------------------|
| | High | Low | Dividends | High | Low | Dividends |
| 2006 | | | | | | |
| Quarter ended December 31 | \$ 35.04 | \$ 31.68 | \$ 0.075 | \$ 30.49 | \$ 27.24 | \$ 0.000 |
| Quarter ended September 30 | 33.78 | 29.50 | 0.070 | 28.51 | 22.99 | 0.000 |
| Quarter ended June 30 | 32.35 | 28.31 | 0.065 | 25.65 | 22.80 | 0.000 |
| Quarter ended March 31 | 29.91 | 24.50 | 0.060 | 25.15 | 22.02 | 0.000 |

2005

| | | | | | | |
|----------------------------|-------|-------|-------|-------|-------|-------|
| Quarter ended December 31 | 26.78 | 21.86 | 0.055 | 26.43 | 21.57 | 0.000 |
| Quarter ended September 30 | 27.39 | 21.66 | 0.050 | 29.71 | 22.76 | 0.000 |
| Quarter ended June 30 | 25.12 | 21.69 | 0.000 | 29.65 | 23.13 | 0.000 |
| Quarter ended March 31 | 26.75 | 23.36 | 0.000 | 24.72 | 19.55 | 0.000 |

2004

| | | | | | | |
|----------------------------|-------|-------|-------|-------|-------|-------|
| Quarter ended December 31 | 27.50 | 23.26 | 0.000 | 21.32 | 19.08 | 0.000 |
| Quarter ended September 30 | 23.87 | 20.45 | 0.000 | 20.41 | 17.91 | 0.000 |
| Quarter ended June 30 | 22.57 | 19.05 | 0.000 | 20.85 | 18.14 | 0.000 |
| Quarter ended March 31 | 23.61 | 20.12 | 0.000 | 19.00 | 15.03 | 0.000 |

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The following unaudited pro forma balance sheet combines the historical balance sheet of Sterling and the historical balance sheet of Northern Empire giving effect to the consummation of the merger as if the merger had become/been effective as of September 30, 2006, and giving effect to the related pro forma adjustments described in the accompanying notes to the unaudited pro forma condensed consolidated financial information.

The following unaudited pro forma statements of income for the nine months ended September 30, 2006 and the year ended December 31, 2005 combine the historical statements of income of Sterling and Northern Empire giving effect to the merger as if the merger had become effective at the beginning of the periods presented, and giving effect to the related pro forma adjustments described in the accompanying notes to the unaudited pro forma condensed consolidated financial information. This unaudited pro forma condensed consolidated financial information includes various estimates and may not necessarily be indicative of the financial position or results of operations that would have occurred if the merger had been consummated on the date or at the beginning of the periods indicated or which may be obtained in the future.

The unaudited pro forma condensed consolidated financial information should be read in conjunction with and is qualified in its entirety by reference to the historical financial statements and related notes thereto of Sterling and of Northern Empire incorporated by reference herein.

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

The unaudited pro forma balance sheet as of September 30, 2006 and the unaudited pro forma statements of income for the nine months ended September 30, 2006 and the year ended December 31, 2005 do not reflect Sterling's acquisition of FirstBank on November 30, 2006, or Golf Savings Bank prior to its acquisition on July 5, 2006. Separate financial information for FirstBank, or for Golf Savings Bank prior to its acquisition on July 5, 2006, is not included in or incorporated by reference in this proxy statement/prospectus. The following sets forth unaudited selected financial information regarding FirstBank, derived from financial statements of FirstBank for the period ended September 30, 2006. The pro forma condensed consolidated financial information with respect to Sterling and Northern Empire should be read in conjunction with the following selected information for FirstBank.

**FirstBank
(Unaudited)**

| | September 30, 2006 (in thousands) |
|-----------------------|--|
| Loans receivable, net | \$671,157 |
| Total assets | \$884,167 |
| Deposits | \$633,418 |
| Shareholders' Equity | \$82,764 |

**For the Six Months
Ended September 30,
2006
(in thousands)**

| | |
|---------------------|----------|
| Interest income | \$31,088 |
| Net interest income | \$18,253 |
| Net income | \$4,965 |

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Unaudited Pro Forma Condensed Consolidated Balance Sheet

| | | September 30, 2006 | | |
|-------------------------|--------------------|-------------------------------|----------------------------------|----------------------------------|
| | Sterling(1) | Northern Empire | Pro Forma Adjustments | Pro Forma Combined(1) |
| | | (Dollars in thousands) | | |
| Assets: | | | | |
| Cash and due from banks | \$ 144,975 | | | |