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2008: An Unprecedented Challenge / opportunity



Opportunity relies  
on the ability  
and willingness to  
look at the same world  
as others, yet  
see something different.  
We believe there is opportunity  
in every event,  
every circumstance,  
every day.

Yes, even now.

# 2008 Financial Data

(Dollar amounts in thousands, except per-share amounts)

Years Ended December 31,

INCOME STATEMENT DATA	2008	2007	2006	2005	2004
Interest income	\$715,062	\$766,978	\$550,855	\$387,811	\$319,761
Interest expense	(355,510)	(411,618)	(286,943)	(171,276)	(122,945)
Net interest income	359,552	355,360	263,912	216,535	196,816
Provision for credit losses	(333,597)	(25,088)	(18,703)	(15,200)	(12,150)
Net interest income after provision for credit loss	25,955	330,272	245,209	201,335	184,666
Non-interest income	72,108	93,478	69,340	59,569	47,799
Non-interest expenses	(285,730)	(285,537)	(206,373)	(170,281)	(148,370)
Goodwill impairment	(223,765)	0	0	0	0
Total non-interest expenses	(509,495)	(285,537)	(206,373)	(170,281)	(148,370)
Income before income taxes	(411,432)	138,213	108,176	90,623	84,095
Income tax benefit (provision)	75,898	(44,924)	(34,230)	(29,404)	(27,790)
Net income (loss)	(335,534)	93,289	73,946	61,219	56,305
Preferred stock dividend	(1,208)	0	0	0	0
Net income (loss) applicable to common shareholders	(\$336,742)	\$93,289	\$73,946	\$61,219	\$56,305
Earnings per common share—basic <sup>(1)</sup>	(\$6.51)	\$1.87	\$2.03	\$1.77	\$1.66
Earnings per common share—diluted <sup>(1)</sup>	(\$6.51)	\$1.86	\$2.01	\$1.75	\$1.62
Dividends declared per common share	\$0.300	\$0.350	\$0.270	\$0.105	\$0.000
Weighted average shares outstanding—basic <sup>(1)</sup>	51,721,671	49,786,349	36,423,095	34,633,952	33,931,509
Weighted average shares outstanding—diluted <sup>(1)</sup>	51,721,671	50,217,515	36,841,866	35,035,029	34,708,794
<b>OTHER DATA</b>					
Book value per common share <sup>(1)</sup>	\$16.29	\$23.04	\$18.63	\$14.54	\$13.65
Tangible book value per common share <sup>(1)</sup>	\$11.41	\$13.61	\$12.07	\$10.80	\$9.81
Return on average assets	-2.65%	0.83%	0.88%	0.87%	0.88%
Return on common equity	-28.8%	8.6%	13.0%	12.4%	13.2%
Shareholders' equity to total assets	8.9%	9.8%	8.0%	6.7%	6.8%
Operating efficiency	118.0%	63.6%	61.9%	61.7%	60.7%
Net interest margin (tax equivalent)	3.08%	3.42%	3.33%	3.30%	3.34%
Non-performing assets to total assets	4.77%	1.04%	0.11%	0.11%	0.20%
Employees (full-time equivalents)	2,481	2,571	2,405	1,789	1,624
Depository branches	179	178	166	140	135

<sup>(1)</sup> Weighted average shares and per-share amounts for the applicable prior periods have been restated to reflect stock splits in prior periods.

"Throughout the year, Sterling has taken steps to enhance its capital base. At year end, we remained well capitalized with a risk-based capital ratio of 13.0 percent, representing one of the highest in our history."

(Dollar amounts in thousands, except per-share amounts)

Years Ended December 31,

BALANCE SHEET DATA	2008	2007	2006	2005	2004
Total assets	\$12,790,716	\$12,149,775	\$9,834,492	\$7,562,377	\$6,944,234
Loans receivable, net	8,807,094	8,948,307	7,021,241	4,889,366	4,253,887
Mortgage-backed securities	2,639,290	1,785,031	1,687,672	1,960,582	2,036,920
Investments	175,830	201,033	134,077	91,331	92,819
Deposits	8,350,407	7,677,772	6,746,028	4,806,301	3,863,296
FHLB advances	1,726,549	1,687,989	1,308,617	1,443,462	1,635,933
Reverse repurchase agreements and funds purchased	1,163,023	1,178,845	616,354	611,676	780,012
Other borrowings	248,276	273,015	240,226	110,688	131,822
Shareholders' equity	\$1,141,036	\$1,185,330	\$783,416	\$506,685	\$469,844

#### CAPITAL RATIOS <sup>(2)</sup>

##### Tier 1 leverage (to average assets)

Sterling	9.2%	8.7%	8.7%	7.4%	N/A
Sterling Savings Bank	8.3%	8.5%	8.6%	7.2%	6.6%
Golf Savings Bank	12.6%	7.3%	6.9%	N/A	N/A

##### Tier 1 (to risk-weighted assets)

Sterling	11.7%	10.1%	10.0%	9.5%	N/A
Sterling Savings Bank	10.6%	9.8%	9.7%	9.2%	9.7%
Golf Savings Bank	17.8%	10.2%	10.9%	N/A	N/A

##### Total (to risk-weighted assets)

Sterling	13.0%	11.3%	11.1%	10.5%	N/A
Sterling Savings Bank	11.8%	11.0%	10.8%	10.2%	10.7%
Golf Savings Bank	19.1%	10.8%	11.6%	N/A	N/A

#### ANNUAL STOCK PERFORMANCE

High	\$19.72	\$34.64	\$35.04	\$27.39	\$27.50
Low	2.36	16.30	24.50	21.66	19.05
Close	\$8.80	\$16.79	\$33.81	\$24.98	\$26.17

<sup>(2)</sup> Sterling Financial Corporation did not have regulatory capital-ratio requirements prior to its conversion to a bank holding company in July 2005. Golf Savings Bank's capital ratios have not been disclosed for periods prior to Sterling's acquisition of Golf Savings Bank in July 2006.



# Shareholders' Letter

## **Harold B. Gilkey**

Chairman, President  
and Chief Executive Officer  
Sterling Financial Corporation

**W**HAT BEGAN IN THE SUMMER OF 2007 AS A DISRUPTION IN THE U.S. SUB-PRIME MORTGAGE MARKET transformed into a global financial pandemic by the winter of 2008. The dislocations in the financial system affected nearly every market segment. Iconic financial institutions such as Bear Stearns, Countrywide Financial, Lehman Brothers, Merrill Lynch, Wachovia and Washington Mutual, succumbed to financial crisis.

Sterling Financial Corporation remained profitable for most of 2008 thanks to its mission as a community bank and its location predominantly in the Pacific Northwest. As a community bank, we lend in the communities that we serve. Knowing our customers and understanding their businesses are core tenets of our lending philosophy. This helps us manage credit risk. The communities that Sterling serves were generally stronger than other areas of the country in 2008, reflecting the Pacific Northwest's diversified economy.

Sterling's foundation is based on a conservative credit culture. Sterling did not originate sub-prime mortgages, offer option ARMs or underwrite Alt-A loans for its residential-mortgage portfolio. Sterling does not have a consumer credit card portfolio. Sterling did not invest in preferred stock, collateral debt obligations or derivative contracts. As a result, we generally avoided impairment charges in our investment portfolio and significant charge-offs in our loan portfolio, except within residential construction. Nonetheless, the

rippling financial turmoil that started in the sub-prime mortgage segment has affected Sterling and its residential construction borrowers. The initial impact of the sub-prime mortgage meltdown was to reduce the liquidity of our residential-construction borrowers. Many prospective homebuyers were unable to obtain mortgages. This resulted in homebuilders having an excess supply of housing inventory. The subsequent impact of the sub-prime mortgage meltdown was to reduce the value of the collateral securing residential construction loans. This, in turn, resulted in the write-downs of loans.

Fortunately, Sterling did not have all of its eggs in one basket. At year end, residential construction loans made up 16 percent of its portfolio, compared with 21 percent at the end of 2007. Beginning in the fourth quarter of 2007, Sterling began reducing its residential construction portfolio and increased its efforts to build commercial and consumer assets.

Sterling remained profitable through September 2008. The capacity of Sterling's core banking operations to generate earnings enabled Sterling to absorb elevated credit costs associated with its residential-construction portfolio. However, during the fourth quarter of 2008, the slowing economy nearly came to a halt. In my 40-year career in the banking industry, I cannot recall a period when economic conditions worsened as quickly and severely as they did in the final quarter of 2008.

The rapid slowing of the national economy affected the economies of the Pacific Northwest region, put additional stress on the values of real estate properties and strained the cash flows of many of Sterling's borrowers. In the fourth quarter, we experienced a continued worsening of credits in both residential and commercial construction and an increase in loan delinquencies in other loan segments.

Sterling recognized provisions for credit losses of \$228.5 million in the fourth quarter of 2008 for a total of \$333.6 million for the full year of 2008. In addition, Sterling's fourth-quarter and full-year results included a non-cash charge of \$223.8 million related to the impairment of goodwill. The sustained and protracted decline in the stock price and market

Sterling is committed to maintaining safe, sound and secure banking practices. Sterling's management team, supported by its board of directors, took steps to increase its capital reserves, protect customer deposits and maintain liquidity.

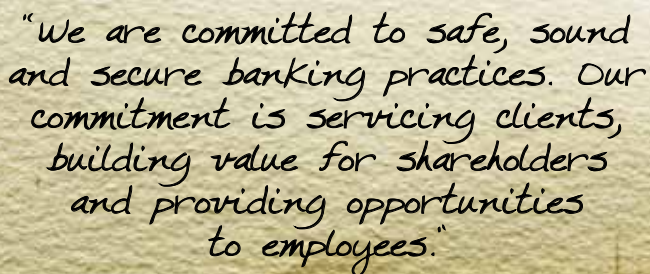
Sterling's executive management team and certain members of Sterling's senior management team elected to accept no cash-bonus compensation for 2008.

In December, Sterling raised \$303 million from the U.S. Department of the Treasury from the sale of senior preferred stock and related warrants. The capital helps ensure that Sterling maintains its well-capitalized status and enhances Sterling's strong capital position by increasing its risk-based capital to 13.0 percent, nearly the highest in the company's history.

To strengthen the safety of our customer deposits, Sterling elected to participate in the Federal Deposit Insurance Corporation's (FDIC's) voluntary expanded insurance program, which provides, without charge to depositors, full guarantee on all non-interest-bearing transaction accounts held by any depositor, regardless of dollar amount. This program is in addition to a government-enacted increase in FDIC insurance coverage to \$250,000 from \$100,000 per depositor.

To further preserve capital and maintain liquidity, Sterling's board of directors made the prudent, but difficult, decision to suspend its quarterly cash dividend on its common stock. This measure will enable Sterling to retain approximately \$21 million annually in its capital base for lending and reserve purposes.

Despite difficulties in 2008, Sterling entered 2009 in a strong competitive position. Sterling Savings Bank is the largest commercial bank headquartered in Washington state, and Golf Savings Bank is among the largest originators of residential mortgages in the Pacific Northwest. Sterling has a team of experienced and knowledgeable relationship bankers.



*"We are committed to safe, sound and secure banking practices. Our commitment is servicing clients, building value for shareholders and providing opportunities to employees."*

capitalization of Sterling, similar in magnitude to other publicly traded financial institutions, was a primary factor that led Sterling to determine that the value of its goodwill had become impaired.

Consequently, Sterling reported its first full-year earnings loss since 1983, when Sterling commenced banking operations. Sterling recorded a net loss of \$356.3 million, or \$6.87 per share, for the fourth quarter of 2008, and had a net loss of \$336.7 million, or \$6.51 per share, for the year ended December 31, 2008.

*"We serve over 25,000 small- and medium-sized businesses and 175,000 retail accounts located throughout the Pacific Northwest with a network of offices that span from the Canadian border to northern California and from central Montana to the Pacific coast."*

Our broad selection of banking options is geared toward providing the right fit and mix of value-added financial products and services to meet our customers' needs. Commercial and retail customers are supported through an extensive network of offices across the Pacific Northwest, from the Canadian border to northern California, and from central Montana to the Pacific coast.

Sterling believes that strong communities foster strong banking relationships. This belief stems from our signature brand of service commitment that we call Hometown Helpful®. Our employees live this creed both within the bank and in their communities. In 2008, through employees' volunteer efforts and corporate support, Sterling was involved with over 450 nonprofit organizations that serve local communities throughout the western region.

Management succession and talent building have been a strategic effort at Sterling over the last several years. At year end, Heidi Stanley, our chief executive officer at Sterling Savings Bank, was elected chairman of the board of directors of Sterling Savings Bank. She succeeds Sterling co-founder William Zuppe, who stepped down from the board of Sterling Savings Bank. Bill will continue to serve on and lend his expertise to the board of Sterling Financial Corporation. Finally, I would like to acknowledge the passing of, and our gratitude to, Robert E. Meyers, a long-time Sterling shareholder and retired board member.

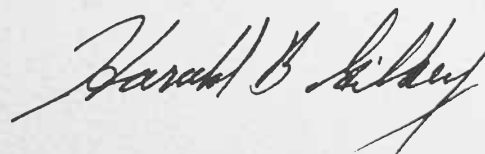
In 2008, Sterling marked an important milestone: the resolution of its goodwill lawsuit against the U.S. government for its breach of contract related to past acquisitions of failed savings institutions. Sterling was paid \$1.8 million — an

amount that was far less than management believes was due. Still, we fought hard and won on principle, and are satisfied that the litigation is fully concluded.

On behalf of the executive team, I want to thank everyone for their support in making 2008 the best year it could be. Without your hard work and dedication we would not be where we are today. I would like to thank the board of directors for its support, our shareholders for their commitment, our employees for their outstanding performance and our customers for their continued loyalty.

Sterling and its management team have navigated through many challenges over the course of its 25-year history. We are in the midst of one of the most difficult credit cycles in modern U.S. history. I remain confident in the ability of Sterling's management team to see our way through this cycle. Our team has a tremendous amount of skill and experience as well as a sense of common mission and a spirit of collective unity.

In working in the banking industry over the last 40 years, the most important lesson I have learned is that opportunity is always present — as long as we adhere to banking basics.



**Harold B. Gilkey**

Chairman, President and Chief Executive Officer  
Sterling Financial Corporation

# Capital Purchase Program



## Daniel G. Byrne

Executive Vice President and Chief Financial Officer  
Sterling Financial Corporation

**I**N OCTOBER 2008, THE U.S. GOVERNMENT ENACTED THE EMERGENCY ECONOMIC STABILIZATION ACT, which authorized the U.S. Department of the Treasury to spend up to \$700 billion to strengthen the financial sector weakened by the sub-prime mortgage crisis. The first \$350 billion of the plan provided capital injections into banks in order to stabilize and restore confidence in, as well as prevent further stress to, the U.S. financial markets. This capital was made available to strong, well-capitalized financial institutions like Sterling. As a leading regional bank in the western region, Sterling has an important role to play in sustaining and supporting businesses and consumers through a difficult economic cycle. As a community bank, service to local communities is the heart of our corporate culture and the backbone of our competitive advantage.

## Sterling Fortifies its Capital Position

On December 5, 2008, Sterling Financial Corporation completed the sale of 303,000 shares of senior preferred stock and issued a warrant to purchase 6,437,677 shares of Sterling's common stock to the U.S. Department of the Treasury through the Treasury's Capital Purchase Program, raising proceeds of \$303 million.

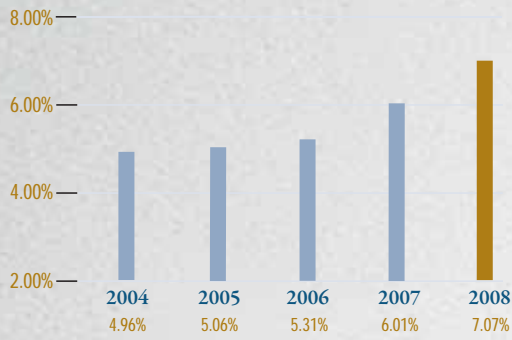
With its stronger capital position, Sterling plans to expand its leadership role in community-based lending. Sterling intends to use the capital to fund additional lending through its two subsidiary banks, which are expected to support economic activity and development of the communities that Sterling serves.

The additional capital should enable Sterling Savings Bank to continue lending to small- to mid-sized businesses as well as consumers throughout the Pacific Northwest. These proceeds are also expected to enable Golf Savings Bank to continue making low-interest mortgages available to homebuyers, including many first-time and low- to moderate-income buyers. Golf is evaluating programs to help owner-occupied mortgage holders who are delinquent in their payments avoid foreclosure.

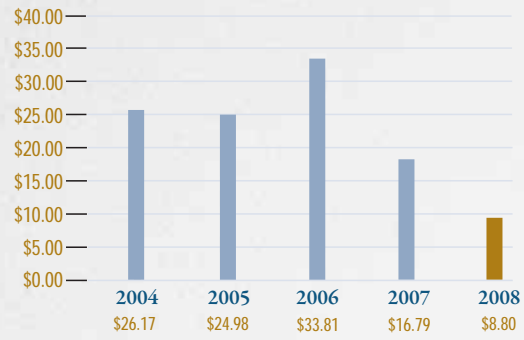
*"My priority is to maintain Sterling's strong capital and liquidity positions."*

With Sterling's participation in the U.S. Treasury's Capital Purchase Program, Sterling's capital reserves and liquidity positions are at the strongest levels in Sterling's recent history. In 2009, there may be continued headwinds caused by growing unemployment, a slowing economy and an uncertain real estate market. Sterling believes its capital position will enable it to manage through this cycle and be a source of strength to all in our service region.

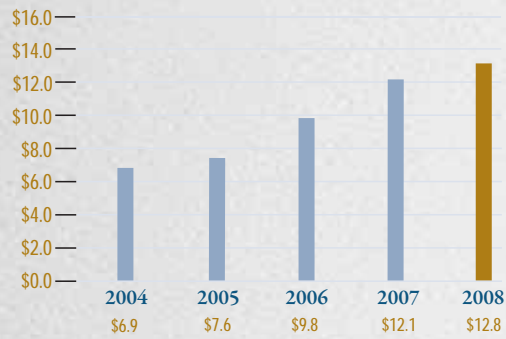
**Tangible Equity to Tangible Assets**



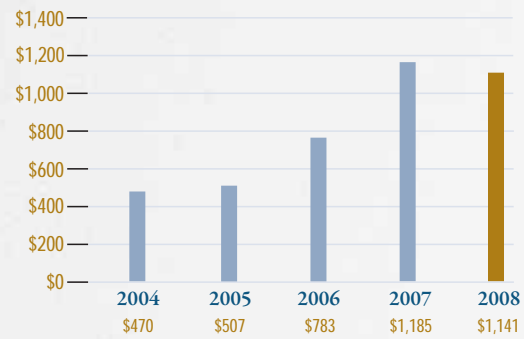
**End of Period Share Price**



**Total Assets (Dollars in billions)**



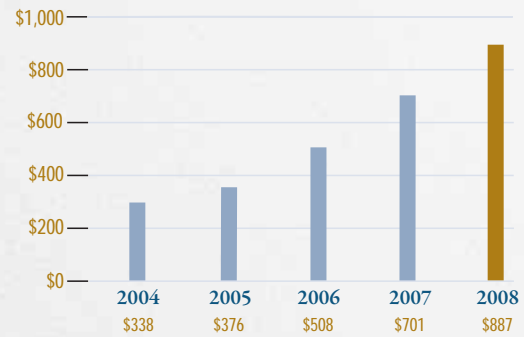
**Total Equity (Dollars in millions)**



**Total Deposits (Dollars in billions)**



**Tangible Equity (Dollars in millions)**



**Total Revenue<sup>(1)</sup> (Dollars in millions)**

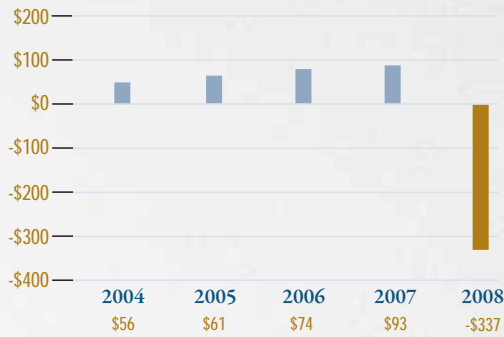


<sup>1</sup> Total revenue is net interest income plus non-interest income.

**Return Measures**



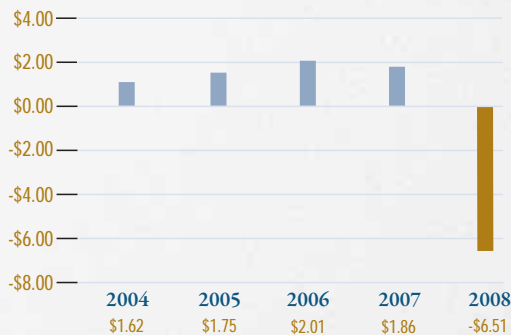
**Net Income** (Dollars in millions)



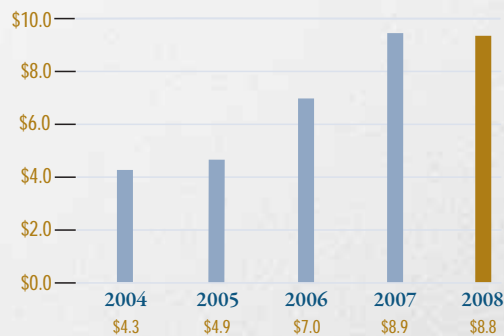
**Market Capitalization** (Dollars in millions)



**Earnings Per Share** (Diluted)



**Total Net Loans** (Dollars in billions)



## 2008 Highlights:

- Capital ratios remain above “well-capitalized” levels at 13.0%.
- Available liquidity remains strong at \$3.2 billion.
- Tangible book value per common share was \$11.41.
- Ratio of tangible shareholders’ equity to tangible assets improved to 7.07%.
- Total assets were \$12.79 billion.
- Total loans receivable were \$8.81 billion.
- Total deposits increased 9% over 2007 to a record \$8.35 billion.

# Sterling Savings Bank



## **Heidi B. Stanley**

Chairman and Chief Executive Officer  
Sterling Savings Bank

## **S**TERLING SAVINGS BANK IS THE PRIMARY SUBSIDIARY OF STERLING FINANCIAL CORPORATION.

In 2008, Sterling Savings Bank celebrated its 25-year anniversary. Over the last quarter century, Sterling Savings Bank has transformed into one of the leading community banks in the western region of the United States, and the largest commercial bank headquartered in Washington state. Heidi B. Stanley is Sterling's chief executive officer. Ms. Stanley's outstanding management and organizational skills have been key contributors to Sterling's success and growth over her 20-plus-year tenure with Sterling. In late 2008, Ms. Stanley was promoted to chairman of the board of directors of Sterling Savings Bank.

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## **A Year of Planned and Unplanned Changes**

Our employees proved to be a competitive advantage in 2008 — a year that ushered in both planned and unplanned changes. There was a planned change of leadership and an unplanned change of economic climate. Throughout the year, the Sterling team was called upon repeatedly to respond and adapt to change. Our team moved as one company and as one body. Consequently, we remained well capitalized in one of the most difficult economic climates of the last 100 years.

Sterling Savings Bank began 2008 with a new leadership structure — the culmination of a multi-year planning process to assure the smooth transition of management and creation of an operating structure to support future growth. Over the last 25 years, Sterling has evolved steadily into one of the largest community banks in the western region of the United

States. During this time, our product offerings, customer base and geographic reach have broadened. With new leadership, we were able to streamline management of production by creating separate operating divisions for each of our business production units: Retail Banking, Commercial Banking, Deposit Management, Wealth Management and Real Estate Banking. Our income property lending arm, INTERVEST-Mortgage Investment Company, continues to operate as a subsidiary of Sterling Savings Bank.

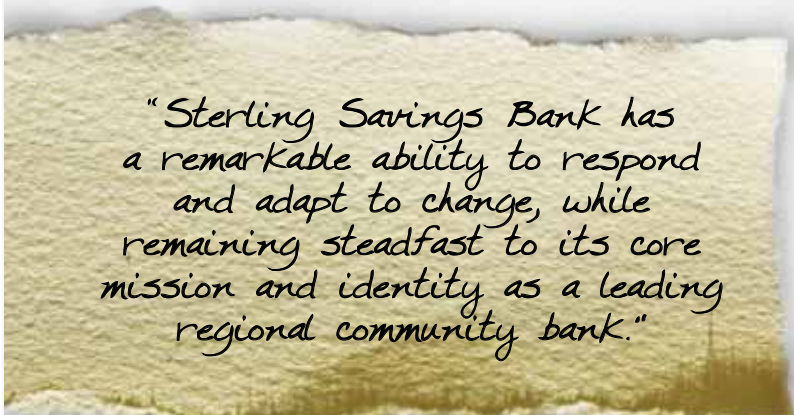
Early in this business cycle, we recognized the severity of the housing crisis caused by the sub-prime meltdown, particularly within our residential-construction portfolio. During the fourth quarter of 2007, Sterling made a strategic decision to reduce its level of residential-construction commitments. During the first quarter of 2008, Sterling activated a residential construction special project team to identify, manage and resolve credit-quality issues. During the third quarter of 2008, Sterling separated its credit administration team into two dedicated teams: one to fix, repair and manage construction assets, and the other to focus on generating strategic business and consumer assets in order to grow the core banking operations.

By late 2008, we began experiencing an increase in loan delinquencies in other loan segments as a result of a slowing economy following the sub-prime meltdown. Remediation of loan problems requires early identification of loans facing stress, conservative assumptions governing loan values and skilled management and oversight of these assets. It will take

several quarters for our credit administration teams to fix, repair and manage stressed assets. We believe that we have the staffing and expertise to get through this current cycle.

## **New Opportunities**

As head of Sterling Savings Bank, I believe opportunity to succeed is always present in any economic climate as long as our management team is able to respond to change and remain true to Sterling's core mission of being a community bank. In 2008, the Sterling team did just that. Openness and willingness to address change enabled us to remain focused on banking basics: taking a deposit, making a loan, charging a fee and managing overhead. Accordingly, we accomplished much in 2008.



*"Sterling Savings Bank has a remarkable ability to respond and adapt to change, while remaining steadfast to its core mission and identity as a leading regional community bank."*

## **Operational Achievements**

I want to thank the entire Sterling team for its execution in a difficult time. Bankwide, we showed commitment and accountability. Our efforts over the course of 2008 demonstrated the growth and development of the next-generation executive management team.

I would like to congratulate Greg Seibly, who was promoted to president of the bank, and Ezra Eckhardt, who was promoted to chief operating officer. Their promotions were effective January 1, 2009.

Next, I want to highlight the quick and responsive actions Sterling Savings Bank took early in this very serious credit cycle to resolve stressed construction loans and grow the core

bank. These actions to manage stressed credits demonstrate leadership, shared sense of purpose, performance priorities and commitment to safe, sound and secure banking practices.

Sterling continued to make progress towards its goal of being the "best bank" for which to work. We believe engaged people make a difference to our organization. In 2008, we introduced Focal Point Review, which incorporates goal development into annual employee reviews in order to align merit pay increases with performance. This effort complements Sterling's long-standing priorities surrounding succession planning and talent development.

Finally, I want to acknowledge our ongoing efforts to introduce state-of-the-art technology, as well as best-practice methodologies, to enhance and develop Sterling's expertise within our Retail, Commercial, Deposit and Wealth Management groups. We are committed to improving our operating efficiency and offering unsurpassed services and products to clients.

## **Strategy: Creating Relationships**

One of Sterling Savings Bank's objectives over the next three years is to achieve higher profitability through several initiatives, including an emphasis on commercial lending, core deposit funding and customer retention. We internally refer to this plan as our 1,000-day journey. Our purpose is to improve the bank's funding structure.

A core tenet of the 1,000-day journey — and the guiding principle of everything we do — is to create relationships, not simply transactions. During the first half of 2008, as part of our strategy, we examined our basic business and consumer products and policies covering these products. Our goal was to offer easy-to-use, competitive products to clients. This paved the way for a major campaign in our 1,000-day journey. Throughout the year, we revamped our line of business checking accounts, simplified our line of consumer checking accounts and reduced or eliminated a number of associated account fees. Our goal is to make it easier and more compelling for customers to do business with Sterling Savings Bank.

*"When I assess Sterling's fourth-quarter and full-year performance, I am more confident in the skill and resoluteness of Sterling's next-generation management team to come through this credit cycle.*

*This group repeatedly demonstrated its ability to come together and act as one body to address change. What my career in banking has taught me is that the caliber and collective effort of a management team matter more than ever in a tough credit cycle."*

## **Resolution: Time, Money and Management**

Throughout 2009, we will be resolute in our efforts to convert non-performing assets into earnings-generating assets. Time, money and management are the keys to resolving non-performing assets. Sterling has allocated management resources and expertise to do this and has been focused on loan resolution for over a year. In time, we believe our efforts will lead to beneficial resolutions for borrowers and the bank.

## **Hometown Helpful® at Home and in Town**

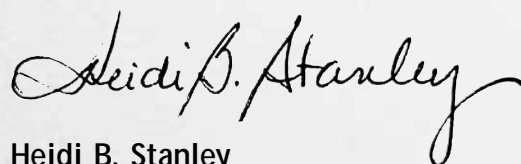
Great companies reflect great employees. Over the last year, our employees repeatedly demonstrated our Hometown Helpful culture both inside Sterling Savings Bank and within our communities. Hometown Helpful is our brand of relationship-based service.

We live our Hometown Helpful motto. The results of our 2008 employee survey underscored that employees throughout the bank overwhelmingly agree that they are treated with respect, integrity and fairness by their colleagues and managers.

Outside our doors, Sterling remained active in the communities that we serve. I want to highlight a few of the many ways in which we support our communities:

- Sterling has over 100 volunteers who support Junior Achievement, which aims to improve financial literacy in local classrooms.
- Over 400 of our employees support Habitat for Humanity by helping to construct homes for families in need throughout the Pacific Northwest.
- Throughout the Pacific Northwest, Sterling employees generously support United Way through payroll pledges.

On behalf of the Sterling Savings Bank executive management team and our board of directors, I would like to thank our employees for their dedication and commitment, and our customers for their loyalty and trust.



**Heidi B. Stanley**

Chairman and Chief Executive Officer  
Sterling Savings Bank

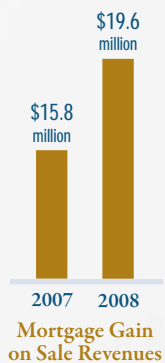
# Golf Savings Bank



## Donn C. Costa

Executive Vice President  
Golf Savings Bank

**A**QUIRED IN 2006 AND COMBINED WITH THE RESIDENTIAL MORTGAGE BUSINESS OF STERLING SAVINGS BANK, Golf Savings Bank today represents a larger, more efficient and profitable business unit. Following the completion of Sterling's acquisition of Golf Savings Bank, Donn Costa and his management team have remained with Sterling.



I am pleased to report that Golf Savings Bank generated core earnings in one of the most difficult environments for mortgage originations in history. Two factors contributed to our profitability. First, Golf Savings Bank increased its mortgage-gain-on-sale revenues to \$19.6 million, thanks to a higher margin on loans sold. Second, we lowered our cost to originate loans and

steadily improved our operating efficiency. Our profitability is noteworthy because mortgage originations nationwide fell 23 percent in 2008. Golf's 2008 volume of mortgage originations declined only 15 percent.

While many of our competitors reported reduced levels of mortgage originations or went out of business altogether, Golf generated high levels of closing volume in 2008, resulting in our second-largest closing year in our company's history.

Our success is simple: we stick to a basic, core strategy. We originate high-quality residential mortgages within our

network of 27 loan offices located in the four states of the Pacific Northwest. We retain and recruit talented employees. We provide mortgages to customers we know and who have good-quality credit ratings. We adhere to rigorous underwriting standards, which equal or exceed national standards. We also offer FHA and VA loans administered by the Federal Housing Administration and Veterans Administration for homebuyers with low to moderate incomes.

*"Golf Savings Bank's primary focus is the origination of high-quality residential home loans in the Pacific Northwest."*

Our business model is volume driven and transaction oriented. We sell most of the mortgages we originate into the secondary market. We do not retain servicing rights.

Our business culture is built on outstanding service. Approximately half of our originations are from prior customers or customer referrals.

Our business model is focused on improving profitability and increasing our share of mortgage originations.

## Market Share

To increase its share of the total volume of closed mortgage originations, Golf Savings Bank intends to expand its geographic reach and penetration. Our market-share expansion strategy includes opening offices in new territories within Sterling's footprint as well as expanding operations in existing markets such as the Puget Sound region and Portland, selectively recruiting talented loan officers, and offering affordable products and programs to first-time homeowners as well as low- to moderate-income buyers. A premise of our office-expansion strategy is to align with the geographic footprint of our sister company, Sterling Savings Bank, in order to maximize the potential for cross-company referrals.

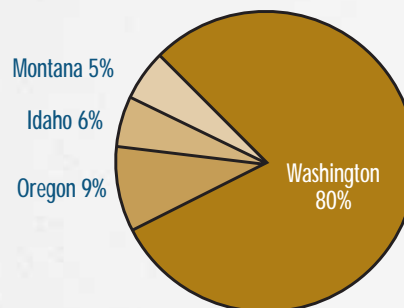
## Profitability

Our strategy to expand profitability is to increase the margin on the gain on sale of loans to the secondary market, improve operating efficiency and reduce our cost of funding (that's our cost of goods). In 2008, we took a significant step toward lowering our cost of funding by offering online or Internet banking to our customers. Retail deposits generally represent a lower cost of funding than other sources of funding. Deposits increased by seven percent in 2008 over 2007. During 2008, we continued efforts to better manage interest-rate lock commitments. As a result of these efforts, our margin in 2008 improved significantly. In 2009, we intend to continue building our online-banking business and looking for additional opportunities to improve execution of loan originations and loan sales, while striving to become more efficient.

## Commitment to Community

Golf Savings Bank has a strong commitment to the communities it serves. In keeping with the spirit of the Community Reinvestment Act, Golf Savings Bank sponsors

first-time-buyer education classes and participates in community-partnership loan programs offering special loans for low- and moderate-income homebuyers. In connection with Sterling's participation in the U.S. Treasury Capital Purchase Program, Golf Savings Bank is evaluating loan programs for first-time buyers as well as programs to modify loans to help buyers who are delinquent on their mortgage payments avoid foreclosure. As a committed and caring corporate citizen, Golf Savings Bank supports community-development organizations that provide housing and medical care for homeless persons diagnosed with AIDS, and emergency shelter and temporary housing for low-income persons and families.



**Mortgage Closings by State**

Montana includes other areas

In 2009 and beyond, Golf Savings Bank looks forward to serving the Pacific Northwest and helping facilitate single-family home ownership. On behalf of the board of directors of Golf Savings Bank and the executive management team, I would like to thank our team for their focused dedication and our many borrowers for their trust in our service.

**Donn C. Costa**

Executive Vice President  
Golf Savings Bank

# Leadership

*Now More Than Ever*



## **Sterling Savings Bank Management Team**

Heidi Stanley (top left)  
Tom Colosimo  
Nancy McDaniel  
Steve Page  
Larry Conley  
Ezra Eckhardt  
Greg Seibly



## **Golf Savings Bank Management Team**

David Holmstrom  
Matt Mullet  
Donn Costa  
Debbie Steck  
Michele Redland

## **STERLING FINANCIAL CORPORATION DIRECTORS**

**Harold B. Gilkey**, Co-founder, Chairman of the Board, President and Chief Executive Officer of Sterling Financial Corporation

**William W. Zuppe**, Co-founder and former President of Sterling Financial Corporation

**Katherine K. Anderson**, Chief Financial Officer of Seattle Opera in Seattle, WA

**Ellen R.M. Boyer**, Chief Operating Officer/Chief Financial Officer of Kibble & Prentice, a financial services company in Seattle, WA

**William "Ike" L. Eisenhart**, Independent financial consultant to privately held and publicly traded companies in Seattle, WA

**James P. Fugate**, Retired Superintendent of Auburn School District No. 408 in Auburn, WA

**James B. Keegan, Jr.**, Partner in Keegan & Coppin Company, Inc., a real estate brokerage and development firm in Santa Rosa, CA

**Robert D. Larrabee**, Retired, owner of Merchant Mortuary Group in Clarkston, WA

**Donald J. Lukes**, Retired attorney, formerly with Witherspoon, Kelley, Davenport & Toole, P.S. in Spokane, WA

**Michael F. Reuling**, Self-employed real estate consultant in Boise, ID

## **STERLING SAVINGS BANK BOARD OF DIRECTORS**

**Heidi B. Stanley**, Chairman of the Board and Chief Executive Officer of Sterling Savings Bank

**Harold B. Gilkey**, Co-founder and Director of Sterling Savings Bank

**Creigh H. Agnew**, Retired, former Vice President Government Affairs and Corporate Contributions/Corporate Affairs of Weyerhaeuser Company in Federal Way, WA

**Ned M. Barnes**, Corporate Secretary; Principal in the law firm of Witherspoon, Kelley, Davenport & Toole, P.S. in Spokane, WA

**Rodney W. Barnett**, President and General Manager of Carr Sales Co., an electrical-supply firm in Spokane, WA

**Thomas H. Boone**, Attorney, Shareholder and President in the law firm Boone Karlberg P.C. in Missoula, MT

**Clement "Clem" C. Carinalli**, Self-employed real estate investor, vineyard owner and partner in Santa Rosa Recycling & Collections, a solid waste and recycling franchise in Santa Rosa, CA

**Kermit K. Houser**, Former President and Chief Executive Officer of Klamath First Bancorp, Inc. in Klamath Falls, OR

**Marcus Lampros**, Co-owner of Lampros Steel and co-owner of Alliance Steel in Portland, OR

**Dianne E. Spires**, Certified Public Accountant and Partner in the firm of Rusth, Spires & Menefee LLP in Klamath Falls, OR

**William J. Wrigglesworth**, President and Chief Executive Officer of Payne Financial Group in Spokane, WA

## **GOLF SAVINGS BANK BOARD OF DIRECTORS**

**Harold B. Gilkey**, Chairman of the Board, President and Chief Executive Officer of Golf Savings Bank

**Charles Ainslie**, Founder and former Chief Executive Officer of Golf Savings Bank in Mountlake Terrace, WA

**Bob C. Donegan**, President of Ivar's Restaurants in Seattle, WA

**Mark H. Tueffers**, JD, CPA, Tueffers, Guckian & Gamon, PLLC, Certified Public Accountants in Mercer Island, WA

**Gerald R. Zachary**, Financial consultant in Olympia, WA

## **STERLING MANAGEMENT TEAM**

**Harold B. Gilkey**, Co-founder, Chairman of the Board, President and Chief Executive Officer of Sterling Financial Corporation, Director of Sterling Savings Bank, Chairman of the Board, President and Chief Executive Officer of Golf Savings Bank

**Daniel G. Byrne**, Executive Vice President and Chief Financial Officer of Sterling Financial Corporation

## **STERLING SAVINGS BANK**

**Heidi B. Stanley**, Chairman of the Board and Chief Executive Officer

**J. Gregory Seibly**, President

**Ezra A. Eckhardt**, Executive Vice President and Chief Operating Officer

**Thomas W. Colosimo**, Executive Vice President and Chief Financial Officer

**David W. Herbison**, Senior Vice President and Deposit Management Director

**Carol S. Mangan**, Executive Vice President and Commercial Banking Group Director

**Deborah A. Meekins**, Executive Vice President and Retail Banking Director

**Nancy R. McDaniel**, Executive Vice President and Chief Portfolio Manager

**Stephen L. Page**, Executive Vice President and Chief Credit Officer

**Donald H. Wood**, Senior Vice President and Wealth Management Director

**Larry A. Conley**, President of INTERVEST-Mortgage Investment Company

## **GOLF SAVINGS BANK**

**Harold B. Gilkey**, Chairman of the Board, President and Chief Executive Officer of Golf Savings Bank

**Donn C. Costa**, Executive Vice President

**David E. A. Holmstrom**, Vice President and Construction Lending Manager

**Matthew D. Mullet**, Vice President and Chief Financial Officer

**D. Michele Redland**, Vice President and Retail Banking Manager

**Debbie L. Steck**, Vice President, Chief Operations Officer and Production Manager

## **INVESTOR INFORMATION**

### **THE ANNUAL MEETING**

The Annual Meeting of Shareholders of Sterling Financial Corporation will be held in the Eric A. Johnston Auditorium of the Cheney Cowles Center Building, 2316 West First Avenue, Spokane, Washington, on Tuesday, April 28, 2009, at 10:00 a.m., local time.

### **ANNUAL REPORT ON FORM 10-K**

The financial highlights herein should be read in conjunction with the audited financial statements and other financial data included in the Form 10-K portion of the Annual Report for the year ended December 31, 2008, as the financial highlights presented herein have been derived from Sterling's audited financial statements for the periods shown.

### **STOCK TRANSFER REGISTRAR**

American Stock Transfer & Trust Company  
59 Maiden Lane, Plaza Level  
New York, NY 10038-4502  
(800) 676-0791

### **SHAREHOLDER INQUIRIES & INVESTOR MATERIALS**

Sterling Financial Corporation makes a variety of information and financial publications available, including its annual report and Form 10-K, on its website at [www.sterlingfinancialcorporation-spokane.com](http://www.sterlingfinancialcorporation-spokane.com). Copies of recent financial reports may also be obtained, without charge, by contacting Sterling at (509) 227-5389 or writing the company.

### **Sterling Financial Corporation**

111 North Wall Street  
Spokane, WA 99201  
(509) 227-5389

### **NASDAQ: STSA**

### **Websites:**

[www.sterlingfinancialcorporation-spokane.com](http://www.sterlingfinancialcorporation-spokane.com)  
[www.sterlingsavingsbank.com](http://www.sterlingsavingsbank.com)  
[www.golfsavingsbank.com](http://www.golfsavingsbank.com)

### **Branch Location Directory:**

[www.sterlingsavingsbank.com/about/about\\_locations.aspx](http://www.sterlingsavingsbank.com/about/about_locations.aspx)