FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1994-05-13** | Period of Report: **1994-03-31**
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STERLING FINANCIAL CORP /PA/

CIK:**811671**| IRS No.: **232449551** | State of Incorp.:**PA** | Fiscal Year End: **1231**
Type: **10-Q** | Act: **34** | File No.: **000-16276** | Film No.: **94527864**
SIC: **6021** National commercial banks

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FORM 10-Q

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
(Mark One)
X QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 1994

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Transition Period from   to

Commission file number 0-16276

STERLING FINANCIAL CORPORATION
(Exact name of registrant as specified in its charter)

Pennsylvania
(State or other jurisdiction of incorporation or organization)
23-2449551
(I.R.S. Employer Identification No.)

525 Greenfield Road, P.O. Box 10608
Lancaster, Pennsylvania
(Address of principal executive offices)
17605-0608
(Zip Code)

(717) 295-7551
(Registrant's telephone number including area code)

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practical date.

Common Stock, $5.00 Par Value-2,914,739 shares outstanding as of April 30, 1994.
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Sterling Financial Corporation and Subsidiaries

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Part I - Financial Information
Sterling Financial Corporation and Subsidiaries
Consolidated Balance Sheet

ASSETS	March 31, 1994 (Unaudited)	December 31, 1993	March 31, 1993 (Unaudited)
Cash and due from banks.....	$ 31,458,834	$ 36,189,703	$ 18,416,196
Interest-bearing deposits in other banks................	19,886	40,595	1,000,000
Federal funds sold..........	8,450,000	12,350,000	19,950,000
Mortgage loans held for sale	3,250,146	3,431,375	none
Investment Securities:			
Securities held to maturity (market value-$146,325,367; $151,443,866;$136,552,777).	145,466,832	146,465,280	130,622,545
Securities available for sale......................	8,885,536	none	none
Loans.......................	366,817,592	360,730,048	347,858,717
Less: Unearned Income.....	(1,160,965)	(1,365,646)	(2,201,620)
Allowance for loan losses.............	(7,226,599)	(7,180,000)	(6,077,281)
Loans, Net..................	358,430,028	352,184,402	339,579,816
Premises and Equipment......	7,664,308	7,424,265	7,486,071
Other real estate owned.....	121,082	250,608	380,000
Accrued interest receivable and prepaid expenses......	9,666,989	8,816,336	8,840,298
Other assets................	21,134,426	20,730,706	19,174,772
TOTAL ASSETS................	$594,548,067	$587,883,270	$544,403,625

LIABILITIES			
Deposits:			
Non-interest bearing.....	$ 69,227,666	$ 68,197,423	$ 53,830,233
Interest-bearing.........	439,615,613	437,482,475	417,098,059
TOTAL DEPOSITS..............	508,843,279	505,679,898	470,928,292
Interest-bearing demand notes issued to U.S. Treasury..................	3,000,000	3,000,000	3,000,000
Other liabilities for borrowed money............	19,620,151	19,410,045	15,925,497
Mortgages payable and capitalized lease liability	7,936	11,188	205,428
Accrued interest payable and accrued expenses.......	6,010,625	5,413,784	5,821,934
Other liabilities..........	4,852,222	4,900,917	5,166,534

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TOTAL LIABILITIES..........	542,334,213	538,415,832	501,047,685
STOCKHOLDERS' EQUITY			
Common Stock - (Par Value: $5.00)			
No. Shares authorized: 10,000,000			
No. Shares issued:			
2,900,768;2,882,920;2,712,909			
No. Shares outstanding:			
2,900,768;2,882,920;2,710,909			
	14,503,840	14,414,600	13,564,545
Capital Surplus...........	21,553,029	20,830,185	14,385,544
Retained Earnings..........	15,375,591	14,222,653	16,519,924
Net unrealized gain on securities available for sale.....................	781,394	none	none
Less: Treasury Stock (0; 0; 2,000) - at cost.	none	none	(68,000)
TOTAL STOCKHOLDERS' EQUITY.	52,213,854	49,467,438	44,402,013
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY.......	$594,548,067	$587,883,270	$545,449,698

See accompanying notes to financial statements

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Part 1 - Financial Information
Sterling Financial Corporation and Subsidiaries
Consolidated Statement of Income (Unaudited)

	Three Months Ended March 31, 1994	1993
INTEREST INCOME		
Interest and fees on loans..............	$ 7,494,151	$ 7,620,949
Interest on deposits in other banks.....	746	8,495
Interest on federal funds sold..........	57,683	49,324
Interest and dividends on investment securities:		
Taxable...............................	1,595,856	1,620,002
Tax-exempt............................	617,121	546,582
Dividends on stock....................	44,614	45,784
TOTAL INTEREST INCOME...................	9,810,171	9,891,136
INTEREST EXPENSE		
Interest on time certificates of deposit of $100,000 or more.........	96,630	118,082
Interest on all other deposits........	3,005,699	3,462,838
Interest on demand notes issued to the U.S. Treasury...............	17,536	18,078
Interest on other borrowed money......	301,161	267,270

Interest on mortgage indebtedness and obligations under capitalized leases.	275	4,069
TOTAL INTEREST EXPENSE..................	3,421,301	3,870,337
NET INTEREST INCOME.....................	6,388,870	6,020,799
Provision for loan losses...............	182,000	820,000
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES.........................	6,206,870	5,200,799
OTHER OPERATING INCOME		
Income from fiduciary activities........	167,882	147,817
Service charges on deposit accounts.....	440,539	448,542
Other service charges, commissions and fees.................................	319,025	317,317
Mortgage banking income.................	283,371	624,061
Other operating income..................	567,311	587,065
Investment securities gains and (losses)................................	none	4,000
TOTAL OTHER OPERATING INCOME............	1,788,128	2,128,802
OTHER OPERATING EXPENSES		
Salaries and employee benefits..........	2,881,413	2,774,658
Net occupancy expense...................	394,616	330,689
Furniture and equipment expense.........	335,257	307,439
FDIC insurance assessment...............	278,493	259,837
Other operating expenses................	1,463,814	1,230,684

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TOTAL OTHER OPERATING EXPENSES..........	5,353,593	4,903,307
Income before income taxes..............	2,631,405	2,426,294
Applicable income taxes.................	666,258	614,927
NET INCOME..............................	$ 1,965,147	$ 1,811,367
Earnings per common share:		
Net Income.............................	$ .68	$ .64
Cash dividends declared per common share.................................	$ .28	$ .26

See accompanying notes to financial statements

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Part I - Financial Information
Sterling Financial Corporation and Subsidiaries
Consolidated Statements of Cash Flows (Unaudited)

	Three Months Ended March 31 1994	1993
Cash Flows from Operating Activities		
Net Income.............................$	1,965,147$	1,811,367
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:		
Depreciation............................	254,565	250,535
Provision for possible loan and lease losses................................	182,000	820,000
(Gain) loss on sale of property and equipment.............................	(1,352)	none
(Gain) loss on maturities/sales of investment securities.................	none	(4,000)
(Gain) loss on sale of mortgage loans.................................	(200,659)	(561,545)
Proceeds from sales of mortgage loans...	12,600,285	17,198,890
Origination of mortgage loans held for sale..................................	(12,218,397)	(16,637,345)
Change in operating assets and liabilities:		
(Increase) decrease in accrued interest receivable and prepaid expenses......	(850,653)	(729,444)
(Increase) decrease in other assets....	(274,194)	192,027
Increase (decrease) in accrued interest payable and accrued expenses..........	194,305	336,318
Increase (decrease) in other liabilities.	(48,695)	167,822
Net cash provided by/(used in) operating activities............................	1,602,352	2,844,625
Cash Flows from Investing Activities		
Proceeds from interest-bearing deposits in other banks.......................	150,268	900,000
Purchase of interest-bearing deposits in other banks.......................	(129,559)	(1,000,000)
Proceeds from maturities of investment securities............................	10,030,093	8,199,701
Purchase of investment securities......	(16,733,251)	(10,314,769)
Federal funds sold, net................	3,900,000	(16,750,000)
Net loans and leases made to customers.	(6,427,626)	2,728,748
Purchases of premises and equipment....	(697,393)	(147,955)
Proceeds from sale of premises and equipment............................	204,137	3,338
Net cash provided by/(used in) investing activities............................	(9,703,331)	(16,380,937)

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Cash Flows from Financing Activities		
Net increase (decrease) in demand deposits, NOW and savings accounts....	5,352,303	660,458
Net increase (decrease) in time deposits	(2,188,922)	(2,915,664)
Net increase (decrease) in interest-bearing demand notes issued to U.S. Treasury...............................	none	none
Proceeds from borrowings...............	2,800,000	3,250,000
Repayments of borrowings...............	(2,589,894)	(2,047,475)
Repayments of mortgages payable and capitalized lease liability.......	(3,252)	(13,058)
Proceeds from issuance of common stock.	812,084	323,883
Cash dividends paid....................	(812,209)	(704,837)
Acquisition of treasury stock..........	none	(68,000)
Proceeds from issuance of treasury stock.................................	none	245,259
Net cash provided by/(used in) financing activities...........................	3,370,110	(1,269,434)
Increase (decrease) in cash and due from banks.................................	(4,730,869)	(14,805,746)
Cash and due from banks:		
Beginning.............................	36,187,703	33,221,942
Ending................................	$ 31,458,834	$ 18,416,196

Supplemental Disclosure of Cash Flow Information:		
Cash payments for:		
Interest paid to depositors and on borrowed money....................	$ 3,508,844	$ 3,981,666
Income taxes......................	none	135,000

Supplemental Schedule of Noncash Investing and Financing Activities		
Other Real Estate acquired in settlement of loans................	none	20,000

See accompanying notes to financial statements
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Part I - Financial Information

Sterling Financial Corporation and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 1 - Basis of Presentation

The accompanying unaudited consolidated financial statements of Sterling Financial Corporation (Sterling) have been prepared in accordance with generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three-month period ended March 31, 1994 are not necessarily indicative of the results that may be expected for the year ended December 31, 1994.

The consolidated financial statements of Sterling include the accounts of the accounts of its wholly owned subsidiary, Bank of Lancaster County, N.A. and its wholly owned subsidiary, Town & Country, Inc. All significant intercompany transactions are eliminated in the consolidation.

Effective January 1, 1993, Sterling adopted Statement of Financial Accounting Standards No. 106 - Employer's Accounting for Postretirement Benefits Other Than Pensions. Under SFAS No. 106, the cost of postretirement benefits other than pensions must be recognized on an accrual basis as employees perform services to earn the benefits. This is a significant change from the previous generally accepted practice of accounting for these benefits which was on a cash basis. The accumulated postretirement benefit obligation at the date of adoption (the "transition obligation") could have been recognized in operations as the cumulative effect of an accounting change in the period of adoption which would have resulted in an actuarially determined pre-tax charge to earnings of approximately $1,047,756, or its recognition could be delayed by amortizing the obligation over future periods as a component of the postretirement benefit cost. Sterling adopted SFAS No. 106 by recognizing the transition on a delayed basis. The net periodic postretirement benefit cost was $212,339 for the year 1993. It has been determined that the cost for 1994 will be $231,222.

The Financial Accounting Standards Board issued SFAS No. 109 - - - Accounting for Income Taxes. This Statement changes the method of accounting for income taxes. SFAS No. 109 was retroactively applied in 1993 and resulted in a decrease of $310,000 in retained earnings beginning January 1, 1991. Earnings after this
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date have not been restated since the change is not considered material.

Effective January 1, 1994, Sterling adopted Statement of Financial Accounting Standards No. 115 - Accounting for Certain Investments in Debt and Equity Securities. SFAS No. 115 requires that these securities be classified into one of three categories: held-to-maturity, available-for-sale or trading. Specific accounting treatments apply to each of the three categories. Securities held-to-maturity will be reported at amortized cost, trading securities are reported at fair value with unrealized gains and losses included in earnings and available-for-sale will be reported at fair value, with unrealized gains and losses excluded from earnings and reported as a separate component of shareholders' equity. Sterling has segregated its investment securities into two categories: those held-to-maturity and those available-for-sale. The effect of adoption has resulted in an increase to shareholders' equity of $781,394 as of March 31,1994. There has been no impact on current year earnings or a restatement of previously issued financial statements in connection with the adoption of SFAS No. 115.

The Financial Accounting Standards Board issued SFAS No. 112 - - - Employers' Accounting for Postemployment Benefits which establishes accounting standards for employers who provide benefits to former or inactive employees after employment but before retirement. This Statement is effective for fiscal years beginning after December 15, 1993. Sterling has determined that the adoption of this Statement will not have an effect on earnings.

The Financial Accounting Standards Board issued SFAS No. 114 - - - Accounting by Creditors for Impairment of a Loan. This Statement, which becomes effective for fiscal years beginning after December 15, 1994, will require that impaired loans be measured based on the present value of expected future cash flows discounted at the loans's effective interest rate, at the loan's observable market price or the fair value of collateral if the loan is collateral dependent. Sterling has not completed the complex analysis required to estimate the impact of this Statement.

The Financial Accounting Standards Board issued SFAS No. 116 - - - Accounting for Contributions Received and Contributions Made. This Statement becomes effective for financial statements issued for fiscal years beginning after December 15, 1994 and interim periods within those fiscal years. Sterling has determined that the adoption of this Statement will not affect its financial position or results of operations.

Note 2 - Earnings Per Share

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Earnings per common share were computed by dividing net income by the weighted average number of shares of common stock

outstanding which were 2,900,357 and 2,846,542 for 1994 and 1993 respectively. Figures for 1993 were retroactively restated to reflect a 5% stock dividend paid in December 1993.
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Part I - Financial Information

Sterling Financial Corporation and Subsidiaries

Management's Discussion and Analysis of Financial Condition and Results of Operations

Financial Condition

Total assets at March 31, 1994 amounted to $594,548,067 compared to $545,449,698 at March 31,1993. This represents an increase of $49,098,369 or 9.0% over that period of time. The investment securities portfolio reflects a 18.2% increase or $23,729,823 during the twelve month period. Of this increase, $1,183,930 resulted due to adoption of SFAS No. 115. Certain securities were designated as available-for-sale and were reported at fair value. Net loans recorded a 5.6% increase of $18,850,212. Total assets at March 31, 1994 increased $6,664,797 or 1.1% over the $587,883,270 reported at December 31, 1993. During that period, net loans increased $6,245,626 while investment securities increased $7,887,088. Federal Funds sold decreased $3,900,000 in this period of time.

Total deposits increased $37,914,987 or 8.1% from $470,928,292 at March 31, 1993 to $508,843,279 at March 31, 1994. During the first three months of 1994, total deposits increased $3,163,381 from the $505,679,898 reported at December 31, 1993. Noninterest-bearing deposits increased $15,397,433 or 28.6% from $53,830,233 at March 31, 1993 to $69,227,666 at March 31, 1994. During the same period, interest-bearing deposits increased $22,517,554 or 5.4%. Noninterest-bearing deposits increased $1,030,243 or 1.5% during the first three months of 1994 while interest-bearing deposits increased $2,133,138 or .5%.

Stockholders' equity increased $7,811,841 or 17.6% from the $44,402,013 reported at March 31, 1993 to $52,213,854 at March 31, 1994. There was an increase of $2,746,416 or 5.6% from the $49,467,438 reported at December 31, 1993. Contributing to these increases were net income from operations and the issuance of stock pursuant to a dividend reinvestment and stock purchase plan and an employee stock plan. Net unrealized gain on securities available-for-sale in the amount of $781,394, as a result of adoption of SFAS No. 115, also contributed to this increase. Total stockholders' equity to total assets at the end of March 31, 1994 was 8.78% compared to 8.14% for the same period 1993.

At December 31, 1993 the ratio was 8.41%.

During 1989, federal regulatory authorities approved risk-based capital guidelines applicable to banks and bank holding companies in an effort to make regulatory capital more responsive to the risk exposure related to various categories of
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assets and off-balance sheet items. These new guidelines required that banking organizations meet a minimum risk-based capital by December 31, 1992 and redefine the components of capital, categorize assets into different risk classes and include certain off-balance sheet items in the calculation of capital requirements. The components of capital are called Tier 1 and Tier 2 capital. Tier 1 capital is the shareholders' equity and Tier 2 capital is the allowance for loan losses. The risk-based capital ratios are computed by dividing the components of capital by risk-weighted assets. Risk-weighted assets are determined by assigning various levels of risk to different categories of assets and off-balance sheet items. The guidelines require Tier 1 capital of at least 4% and total capital of 8% of risk- weighted assets. Tier 1 capital ratio was 10.35% and the total capital ratio was 11.77% at March 31, 1993 while at March 31, 1994 the Tier 1 capital ratio was 11.12% and the total capital ratio was 12.38%.

The following table reflects the various capital ratios for the periods indicated:

	March 31 1994	December 31 1993	March 31 1993
"Statement"			
Equity Capital	8.78%	8.41%	8.14%
Primary and Total Capital	9.88%	9.52%	9.15%
"Risk-based"			
Tier 1 Capital	11.12%	10.67%	10.35%
Total Capital	12.38%	11.92%	10.77%

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Changes in the Allowance for Loan Losses for the three months ended March 31, 1994 and 1993 were as follows:

	1994	1993
Balance at January 1	$7,180,000	$5,400,000
Provision for loan losses charged to operating expenses	182,000	820,000

	$7,362,000	$6,220,000
Losses charged to allowance	162,239	155,579
Recoveries credited to allowance	26,838	12,860
Net charge-offs	135,401	142,719
Balance at March 31,	$7,226,599	$6,077,281
Allowance as a percent of period-end loans	1.98%	1.76%

The net charge-offs for the first three months of 1994 were within our expectations. In view of the economy and the current state of our loan portfolio, it is our intention to continue to add to the loan loss reserve in an amount of not less than $900,000 through operating expense. We anticipate that our loan loss reserve, as a percentage of net loans, will be in excess of 1.90% by year end.

The following table presents information concerning the aggregate amount of nonaccrual, past due and restructured loans:

	March 31, 1994	December 31, 1993	March 31, 1993
Nonaccrual loans	$3,007,186	$2,960,038	$3,920,902
Accruing loans, past due 90 days or more	$ 420,322	$ 522,024	$ 790,770

The general policy has been to cease accruing interest on loans when it is determined that a reasonable doubt exists as to the collectibility of additional interest. Interest income on these loans is only recognized to the extent payments are received. If interest income had been recorded on such loans for the periods indicated, such interest income would have been increased by approximately $62,997 and $82,803 at March 31, 1994 and 1993 respectively, and $267,295 at December 31, 1993. Interest income recorded on the nonaccrual loans in 1994 and 1993 was none. Potential problem loans are loans which are included as performing loans, but for which possible credit problems of the borrower causes management to have doubts as to the ability of such borrower to comply with present repayment terms and which
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may eventually result in disclosure as a non-performing loan. At March 31,1994, there were commercial loans to two related borrowers aggregating $1.18 million which were considered as potential problem loans which were not included as nonaccrual loans.

At March 31, 1994, there were no concentrations exceeding 10% of total loans. A concentration is defined as amounts loaned to a multiple number of borrowers engaged in similar activities which would cause them to be similarly affected by changes in economic or other conditions. There were no foreign loans outstanding at March 31, 1994.

Liquidity is the ability to meet the requirements of customers for loans and deposit withdrawals in the most economical manner. Liquidity must constantly be monitored because future customer demands for funds are uncertain. The liquidity position remains relatively unchanged since December 31, 1993. Management believes that the funds available provides the liquidity to meet customer demands for funds.
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Results of Operations

The following discussion analyzes the specific components affecting the changes in net income for the periods analyzed.

Three months ended March 31, 1994 compared to three months ended March 31, 1993

Net income for the first quarter of 1994 amounted to $1,965,147 compared to $1,811,367 for the first quarter of 1993. This represents an increase of $153,780 or 8.5%. On a per share basis, income was $.68 compared to $.64.

Total interest income decreased $80,965 or .8% while total interest expense decreased $449,036 or 11.6%. Therefore, the interest differential increased $368,071. Loans increased nearly $19 million over the same period in 1993. However, lower interest rates generated a decrease of $126,798 in interest and fees on loans. Interest on deposits with banks decreased $7,749. The average daily balance on time deposits with banks was $133,276 in 1994 compared to $837,777 in 1993. Interest on federal funds sold increased $8,359 or 16.9%. The daily average of federal funds sold was $7,219,444 in 1994 compared to $6,407,222 in 1993. Income on investment securities increased $45,223 or 2% in 1994. The daily average of investment securities in 1994 was $153,109,108 compared to $128,497,707 in 1993. Adoption of SFAS No. 115 contributed in excess of $1 million to the increase in 1994 over 1993.

Total interest expense amounted to $3,421,301 reflecting decrease of $449,036 or 11.6% over the $3,870,337 reported in 1993. Interest paid on interest-bearing deposits decreased $478,591 or 13.4% in 1994 over the same period in 1993. Although interest-bearing deposits increased, lower interest rates generated this decrease. Interest expense on other interest bearing liabilities increased $29,555 during the same period of time as a result of increased volumes in this category of liabilities.

The provision for possible loan losses decreased $638,000 from a charge of $820,000 in 1993 to $182,000 in 1994. The provision reflects the amount deemed appropriate by management to provide an adequate reserve to meet the present and foreseeable risk characteristics of the loan portfolio.

Total other operating income decreased $350,674 or 16.5%. An increase was reflected in income from fiduciary activities while other areas of income decreased. Income from fiduciary activities increased $20,065. Service charges on deposit accounts and other various service charges decreased $6,295. Other operating income decreased $19,754. Mortgage banking income decreased $340,690. There were gains on investment
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securities of $4,000 in 1993 compared to none in 1994. The decrease in mortgage banking income was a result of the sudden and continuing increases in rates on mortgages originated and sold as well as decreased volumes of originations and subsequent sales. The period in 1993 reflected larger volumes due to refinancings. The gain on sales was not as great as the same period last year.

Total other operating expenses rose $450,286 or 9.2% reflecting normal increases experienced through growth. Increases of $106,755 in salaries and employee benefits; $233,130 in other operating expenses, $91,745 in occupancy and furniture and equipment expense and $18,656 in FDIC insurance constitute the total increase. Contributing to the increase in other operating expenses were increases in VISA and MAC fees, postage, PA Shares tax, insurance premiums, marketing expense, education and training and various other operating expenses in the normal course of business. Two new branch facilities were added in late 1993. One of the facilities was a branch relocation. These additions contributed to the increase in occupancy and furniture and equipment expense.

Applicable income taxes amounted to $666,258 in 1994 compared to $614,927 in 1993. The increase in taxes is due in part to increases in taxable income.

Three months ended March 31, 1994 compared to three months ended December 31, 1993

Net income decreased $142,955 or 6.8% in the first quarter of 1994 over the fourth quarter of 1993. Net income at March 31, 1994 was $1,965,147 compared to $2,108,102 for the quarter ending December 31, 1993. Net income on a per share basis was $.68 for the first quarter of 1994 compared to $.73 for the last quarter of 1993.

Total interest income decreased $396,587 or 3.9%. Interest and fees on loans decreased $452,221 while interest on investment securities increased $79,527. Interest on other earning assets decreased $23,893. Earning assets increased approximately $9 million during the first three months of 1994. The most significant increase in earning assets was in the investment, securities portfolio. Although loans increased, stable and relatively lower interest rates resulted in a decrease in interest and fees on loans.

Total interest expense decreased $214,307 or 5.9% during the first quarter of 1994. Total interest-bearing liabilities increased nearly $2.4 million in the first quarter of 1994 over the last quarter of 1993. Although interest- bearing liabilities increased, rates paid on these liabilities were somewhat lower
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generating a decrease in interest expense.

The loan loss provision for the first quarter of 1994 was $182,000 compared to $392,790 for the last quarter of 1993.

Total other operating income decreased $500,989 in the first quarter of 1994 over the last quarter of 1993. Contributing to this decrease was a decrease in income from service charges on deposit accounts and other various service charges and fees in the amount of $148,952. Another significant contributor to the decrease was a decrease of $251,930 in mortgage banking income. Other income during the last quarter of 1993 was significantly higher due to income realized from other real estate sold.

Total other operating expenses decreased $247,400 or 4.4% over the fourth quarter of 1993.

Occupancy and furniture and equipment expense increased $51,106 and FDIC insurance increased $12,095. Salaries and employee benefits and other operating expense decreased $152,458 and $158,143 respectively during the first quarter 1994 over the last quarter of 1993. Incentive pay and taxes on this compensation during the last quarter of 1993 was the major contributor to salaries being greater in this period of time over the first quarter of 1994.

Applicable income taxes were $82,124 less than those recorded for the fourth quarter of 1993 due mainly to lower taxable income.
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PART II - OTHER INFORMATION

Item 1 - Legal Proceedings.

As of March 31, 1994, there were no material pending legal proceedings, other than ordinary routine litigation incidental to business, to which the Corporation or its subsidiaries are a party or of which any of their property is the subject.

Item 6 - EXHIBITS AND REPORTS ON FORM 8-K

(a) EXHIBITS

1. List of Subsidiaries

(b) REPORTS ON FORM 8-K - There were no reports filed on Form 8-K during the first quarter of 1994.

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Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Sterling Financial Corporation

Date: May 12, 1994   By:John E. Stefan
John E. Stefan
Chairman of the Board,
President and Chief
Executive Officer

Date: May 12, 1994   By:Jere L. Obetz
Jere L. Obetz

Senior Vice President/
Chief Financial Officer

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LIST OF SUBSIDIARIES

The following are the subsidiaries of Sterling Financial Corporation:

Subsidiary	State of Incorporation or Organization
Bank of Lancaster County, N.A. Pennsylvania (National Banking Association) 1 East Main Street P.O. Box 0300 Strasburg, PA 17579	
Town & Country, Inc. (Wholly owned Subsidiary of Bank of Lancaster County, N.A.) 640 East Oregon Road Lancaster, PA 17601	Pennsylvania
Sterling Mortgage Services, Inc. 525 Greenfield Road P.O. Box 10608 Lancaster, PA 17605-0608 (Presently inactive)	Pennsylvania

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