Simplicity Bancorp, Inc.
Form DEFM14A
January 06, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

(Rule 14a-101)

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

Filed by the Registrant x Filed by a Party other than the Registrant ¨

Check the appropriate Box:

¨ Preliminary Proxy Statement

¨ **Confidential for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

x Definitive Proxy Statement

¨ Definitive Additional Materials

¨ Soliciting Material Pursuant to §240.14a-12

Simplicity Bancorp, Inc.

(Name of Registrant as Specified In Its Charter)

Payment of Filing Fee (Check the appropriate box):

¨ No fee required.

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

1) Title of each class of securities to which transaction applies:

2) Aggregate number of securities to which transaction applies:

3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11

(Set forth the amount on which the filing is calculated and state how it was determined):

4) Proposed maximum aggregate value of transaction:

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¨ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

1) Amount Previously Paid:

2) Form, Schedule or Registration Statement No.:

3) Filing Party:

4) Date Filed:

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January 6, 2015

Dear HomeStreet Shareholder:

It is my distinct pleasure to invite you to attend a special meeting of shareholders of HomeStreet, Inc. The meeting will be held at 10 a.m. Pacific Time on January 29, 2015 at the downtown Seattle Hilton Hotel, Winward Room, located at 1301 Sixth Avenue, Seattle Washington. A map and directions to the meeting location can be found at the back of the attached joint proxy statement. The purpose of this meeting is to consider and vote upon the issuance of up to 7,479,964 shares of HomeStreet common stock in connection with our merger with Simplicity Bancorp, Inc., and the related merger of our wholly owned subsidiary, HomeStreet Bank, with Simplicity s wholly owned subsidiary, Simplicity Bank. Simplicity is headquartered in Covina, California, and Simplicity Bank has branches serving much of the Los Angeles basin.

With this letter, we are including the notice of the HomeStreet special meeting, the joint proxy statement and a proxy card. You may also find these documents online at http://ir.homestreet.com.

The boards of directors of HomeStreet and HomeStreet Bank have approved the merger and the transactions related to it, including the issuance of shares of HomeStreet common stock to Simplicity stockholders upon completion of the merger. Because we are acquiring Simplicity Bancorp, and we will be the surviving company in the transaction, your approval of the merger is not required under the Washington Business Corporation Act. However, we are soliciting your approval of the issuance of shares of HomeStreet common stock upon completion of the merger. This distinction is important because the resolution we are submitting for your approval requires the affirmative vote of a majority of shares voting on the matter, rather than the approval of two-thirds of our outstanding common stock that would be required if we were required to seek shareholder approval of the merger. The Board of Directors believes the proposals are in the best interests of HomeStreet and its shareholders and accordingly, recommends that you vote FOR each of the proposals set forth in the enclosed proxy statement.

If you would like to receive electronic notification of documents filed with the Securities and Exchange Commission and the issuance of press releases, you may subscribe for e-mail delivery at http://ir.homestreet.com.

Your vote is important. Whether or not you plan to attend the special meeting, we hope you will vote as soon as possible so that your shares are represented. We urge you to complete, sign and date your proxy card and promptly return it in the postage-paid envelope provided. This will not prevent you from voting in person, but will ensure that your vote is counted if you cannot attend. Thank you for your ongoing support of and continued interest in HomeStreet, Inc.

David A. Ederer

Chairman of the Board

NOTICE OF SPECIAL MEETING OF SHAREHOLDERS

To be Held on January 29, 2015

You are hereby notified of a special meeting of shareholders of HomeStreet, Inc., a Washington corporation (HomeStreet), that will be convened at 10:00 a.m., Pacific Standard Time, on January 29, 2015, in the Winward Room of the Hilton Hotel, 1301 Sixth Avenue, Seattle, Washington 98101(the HomeStreet special meeting), in order to consider and vote upon the following proposals:

1. To approve the issuance of up to 7,479,964 shares of HomeStreet common stock in connection with a proposed merger between HomeStreet and Simplicity Bancorp, Inc., a Maryland corporation whose principal place of business is in Covina, California, pursuant to an Agreement and Plan of Merger dated September 27, 2014; and

2. To transact such other business as may properly come before the HomeStreet special meeting or any adjournment or postponement thereof.

Only shareholders of record at the close of business on December 31, 2014 (the record date for the HomeStreet special meeting), are entitled to notice of the meeting and an opportunity to vote.

We are asking that you provide HomeStreet s board of directors with your vote prior to the meeting by completing and returning the enclosed proxy card as soon as possible, or by submitting your proxy by telephone or Internet voting by following the instructions in the accompanying joint proxy statement and on the enclosed proxy card. Additionally, we hope that you can attend the meeting in person. If you submit your proxy and later wish to change your vote, you may do so either by submitting a new proxy or by voting in person at the meeting. If you cannot attend the meeting and vote in person, please submit a proxy as soon as possible so that your shares can be voted as you instruct. Please submit your proxy in accordance with the specific instructions set forth on the enclosed proxy card. You may vote by mail, by telephone or via the Internet. Please refer to the questions and answers section commencing on page 11 of the accompanying joint proxy statement, the section of the joint proxy statement entitled Summary of the Transaction beginning on page 4, and the instructions on the proxy card.

Godfrey B. Evans

Executive Vice President, General Counsel

and Corporate Secretary

January 6, 2015

IMPORTANT NOTE: We are soliciting your vote to approve the issuance of HomeStreet common stock in the merger as further described in the accompanying joint proxy statement. Under Nasdaq rules, we must obtain the approval of the holders of a majority of HomeStreet s common stock voting at the meeting, prior to issuing the shares that represent the merger consideration, and we cannot complete the merger in the absence of such

approval. However, the Washington Business Corporation Act does not require shareholder approval for the merger, and we are not seeking your approval of the merger or soliciting your proxy for that purpose.

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR HOMESTREET S SPECIAL MEETING OF SHAREHOLDERS TO BE HELD ON JANUARY 29, 2015: This joint proxy statement, as well as HomeStreet s annual and periodic reports, are available on HomeStreet s website at ir.homestreet.com. In accordance with SEC rules, our proxy materials posted on this website do not contain any cookies or other tracking features. The SEC maintains a website located at www.sec.gov that also contains this information. The information on HomeStreet s website and the SEC s website are not part of this joint proxy statement.

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January 6, 2015

Dear Stockholder:

We cordially invite you to attend a special meeting of the stockholders of Simplicity Bancorp, Inc. (Simplicity), the parent company of Simplicity Bank. The special meeting will be held at the Hilton Pasadena Hotel, located at 168 South Los Robles, Pasadena, California 91101, at 5:00 p.m., local time, on February 11, 2015.

The purpose of this meeting is to consider and vote upon a proposal to approve an Agreement and Plan of Merger pursuant to which Simplicity will merge with and into HomeStreet, Inc., a Seattle-based savings and loan holding company, and Simplicity Bank will merge with and into HomeStreet s wholly owned subsidiary, HomeStreet Bank. If the merger is completed, Simplicity stockholders will be entitled to receive one share of HomeStreet common stock for each share of Simplicity common stock they own at the effective time, subject to certain adjustments if HomeStreet s average closing price during a specified measurement period prior to the effective time is more than $20, and subject to adjustment or termination if HomeStreet s average closing price during that period is less than $15 per share. We believe that the merger will allow our stockholders to become a part of a rapidly growing, dynamic and service-oriented company that will continue to serve our customers and our markets, while also diversifying Simplicity s capabilities and providing a significantly more capable full-service banking and mortgage banking franchise. We are enthusiastic about this opportunity, and the accompanying proxy statement provides the reasons for this transaction and the process we employed before selecting HomeStreet as our merger partner. We also are seeking your approval on a non-binding, advisory resolution pertaining to certain payments to be made to our named executive officers upon consummation of the merger.

For the reasons set forth in the accompanying joint proxy statement, Simplicity s directors have determined that the merger agreement, the merger and the related transactions (including the payments to be made to our named executive officers in connection with the merger) are in the best interests of Simplicity and its stockholders. Our board of directors has unanimously approved the transactions and recommends that you cast your vote FOR the approval of the merger agreement, the merger and the related transactions and FOR the non-binding, advisory resolution pertaining to certain payments to be made to our named executive officers upon consummation of the merger.

You may vote your shares by Internet, telephone, regular mail or in person at the special meeting. Instructions regarding the various methods of voting are contained on the notice and on the proxy card.

On behalf of our board of directors, we urge you to vote your shares of common stock as soon as possible even if you currently plan to attend the special meeting. This will not prevent you from voting in person, but will assure that your vote is counted if you are unable to attend the special meeting.

Sincerely,

Dustin Luton

President and Chief Executive Officer

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NOTICE OF SPECIAL MEETING OF STOCKHOLDERS

To be Held on February 11, 2015

You are hereby notified of a special meeting of stockholders of Simplicity Bancorp, Inc., a Maryland corporation (Simplicity), that will be convened at 5:00 p.m., Pacific Standard Time, on February 11, 2015, at the Hilton Pasadena Hotel, 168 South Los Robles, Pasadena, California 91101 (the Simplicity special meeting), in order to consider and vote upon the following proposals:

1. To approve the Agreement and Plan of Merger dated September 27, 2014 between Simplicity and HomeStreet, Inc., a Washington corporation and a registered savings and loan holding company, and the transactions contemplated thereby.

2. To approve an advisory (non-binding) resolution approving certain payments to be made to Simplicity s named executive officers in connection with the transactions contemplated by proposal 1 above.

3. To transact such other business that may properly come before the Simplicity special meeting or any adjournment or postponement thereto.

Only stockholders of record at the close of business on December 31, 2014 (the record date for the Simplicity special meeting), are entitled to notice of the meeting and an opportunity to vote.

We are requesting that you provide Simplicity s board of directors your vote prior to the meeting by completing and returning the enclosed proxy card as soon as possible, or by telephone or Internet voting by following the instructions in the accompanying joint proxy statement and on the enclosed proxy card. Additionally, we hope that you can attend the meeting in person. If you submit your proxy and later wish to change your vote you may do so, either by submitting a new proxy or by voting in person at the meeting. If you are unable to attend the meeting and vote in person, please submit a proxy as soon as possible, so that your shares can be voted at the meeting in accordance with your instructions. Please submit your proxy by mail, by telephone or via the Internet in accordance with the specific instructions set forth in the enclosed proxy card. Please refer to the questions and answers section commencing on page 11 of the accompanying joint proxy statement, the section of the joint proxy statement entitled Summary of the Transaction beginning on page 4, and the instructions on the proxy card.

Dustin Luton

President and Chief Executive Officer

January 6, 2015

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR SIMPLICITY S SPECIAL MEETING OF STOCKHOLDERS TO BE HELD ON FEBRUARY 11, 2015:

This joint proxy statement and a proxy card are available at www.proxyvote.com. The information on this website is not part of this joint proxy statement.

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BEFORE THE

CALIFORNIA DEPARTMENT

OF

BUSINESS OVERSIGHT

In the Matter of the Application of	)	
HOMESTREET, INC.	)	NOTICE OF HEARING PURSUANT TO
For Permit Authorizing Sale and Issuance of Securities Pursuant to Sections 25121 and 25142 of the Corporate Securities Laws of 1968, as amended	)	SECTION 25142 OF THE CALIFORNIA
	)	CORPORATIONS CODE
	)	FILE NO. -
	)	
	)	
	)	

TO: All Holders of Outstanding Shares of Common Stock of
Simplicity Bancorp, Inc., a Maryland corporation (Simplicity)

THIS NOTICE DOES NOT CONSTITUTE A RECOMMENDATION ON, OR A SOLICITATION OF, A STOCKHOLDER S VOTE ON THE MERGER. SHORTLY AFTER THE HEARING AND THE ISSUANCE OF A PERMIT, SIMPLICITY BANCORP STOCKHOLDERS WILL BE ASKED TO VOTE ON THE MERGER AGREEMENT AND THE PRINCIPAL TERMS OF THE MERGER AT A SPECIAL MEETING OF THE STOCKHOLDERS OF SIMPLICITY BANCORP, INC.

Notice is hereby given that on January , 2015 at the hour of a.m. (Los Angeles time), a public hearing will be held before , a Hearing Officer for the California Commissioner of the California Department of Business Oversight (the California Commissioner) at 320 West Fourth Street Suite 750, Los Angeles, California 90013, upon the application filed on December , 2014 by HomeStreet, Inc., a Washington corporation and a registered savings and loan holding company (HomeStreet or the Applicant) for a permit (the Permit) authorizing the issuance of its common stock pursuant to an Application for Qualification of Securities by Permit pursuant to Section 25121 of the Corporate Securities Law of 1968 (the Corporations Code).

FACTS GIVING RISE TO HEARING

The purpose of the hearing is to enable the California Commissioner to determine, pursuant to Section 25142 of the Corporations Code, whether the terms and conditions of the transaction described or incorporated by reference herein are fair, just and equitable. Accompanying this Notice is a Definitive Joint Proxy Statement on Schedule 14A filed by

HomeStreet and Simplicity with the United States Securities and Exchange Commission on January 6, 2015. Certain portions of the contents of the joint proxy statement are incorporated herein by reference as further described below, and we urge Simplicity s stockholders to read that document and any documents incorporated by reference carefully in their entirety.

A FINDING BY THE CALIFORNIA COMMISSIONER THAT THE PROPOSED TRANSACTION IS FAIR, JUST AND EQUITABLE, AND THE ISSUANCE OF A PERMIT BASED ON THOSE FINDINGS, IS NOT A RECOMMENDATION OF THE PROPOSED TRANSACTION, NOR DOES IT CONSTITUTE THE SOLICITATION OR RECOMMENDATION OF A PROXY IN CONNECTION THEREWITH.

Pursuant to an Agreement and Plan of Merger between HomeStreet and Simplicity dated September 27, 2014 (the merger agreement), a copy of which is included herewith as Annex A to the joint proxy statement, HomeStreet proposes to acquire Simplicity and Simplicity Bank by having Simplicity merge into HomeStreet (the merger) and, immediately thereafter, by having Simplicity Bank to merge into HomeStreet Bank, whereupon the separate existence of Simplicity and Simplicity Bank will cease. HomeStreet would be the surviving corporation in the merger and HomeStreet Bank would be the resulting bank in the bank merger. Simplicity stockholders will be entitled to receive one share of HomeStreet common stock for each share of Simplicity common stock they own at the effective time, subject to certain adjustments if HomeStreet s average closing price during a specified measurement period prior to the effective time is more than $20, and subject to adjustment or termination as described herein if HomeStreet s average closing price during that period is less than $15 per share.

APPLICANT S DESCRIPTION OF THE MATERIAL FEATURES OF THE MERGER.

The material features of the merger are described in detail in the joint proxy statement. The table below provides, for purposes of this Notice, the information required to be set forth herein, including page and section references to the joint proxy statement. The information set forth in the corresponding section of the joint proxy statement is incorporated herein by reference.

Terms	Page	Section
Effect on Capital Stock.	5	Summary of the Transaction The Transaction.
	111	The Merger Summary of the Merger Merger Consideration; Conversion of Shares.
Fractional Shares.	112	The Merger Summary of the Merger Fractional Shares.
Dissenters Rights.	8	Summary of the Transaction Dissenters Rights.
	113	The Merger Summary of the Merger Dissenters Rights.
Expected Closing.	6	Summary of the Transaction The Transaction Anticipated Closing.
	112	The Merger Summary of the Merger Closing and Effective Time.

The description of the merger incorporated by reference above is not complete and is qualified by its entirety by the language of the merger agreement. Readers should refer to the merger agreement and its exhibits for a complete understanding of the merger.

APPLICANT S DESCRIPTION OF THE OTHER MATERIAL PROVISIONS OF THE MERGER AGREEMENT.

Terms	Page	Section
Representations and Warranties.	6	Summary of the Transaction Representations and Warranties.

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BACKGROUND OF AND REASONS FOR THE MERGER.

The information set forth in the joint proxy statement under the headings Background of and Reasons for the Merger (beginning at page 79), Background of and Reasons for the Merger Reasons of Simplicity for the Merger (beginning at page 84), and Background of and Reasons for the Merger Reasons of HomeStreet for the Merger (beginning at page 86) is incorporated herein by reference.

APPLICANT S DESCRIPTION OF THE GENERAL EFFECT UPON THE RIGHTS OF EXISTING SHAREHOLDERS.

The information set forth in the joint proxy statement under the headings Background of and Reasons for the Merger (beginning at page 79), The Merger General (beginning at page 111), The Merger Summary of the Merger Merger Consideration (beginning at page 111), and The Merger Summary of the Merger Fractional Shares (beginning at page 112) is incorporated herein by reference.

APPLICANT S DESCRIPTION OF NUMBER OF SHAREHOLDERS; VOTE REQUIRED.

***Applicant*. The issuance of the Applicant s common stock as merger consideration requires the affirmative vote of the holders of a majority of the shares of HomeStreet common stock voting at the HomeStreet special meeting. As of the record date for the HomeStreet special meeting there were 14,856,610.6 shares of HomeStreet common stock outstanding and held by approximately 132 shareholders of record.**

***Simplicity*. The approval of the principal terms of the merger agreement and the merger requires the affirmative vote of the holders of a majority of the shares of Simplicity common stock outstanding and entitled to vote. The advisory vote on certain compensation payable to named executive officers will be approved if the holders of a majority of the votes cast of Simplicity common stock vote to adopt the proposal. As of the record date for the Simplicity special meeting there were 7,392,908 shares of Simplicity common stock outstanding and held by approximately 2,616 stockholders of record.**

APPLICANT S DESCRIPTION OF CERTAIN FEDERAL INCOME TAX CONSIDERATIONS.

The information set forth in the joint proxy statement under the heading United States Federal Income Tax Consequences of the Merger (beginning at page 136) is incorporated herein by reference.

DESCRIPTION OF BUSINESS OF APPLICANT AND SIMPLICITY.

HomeStreet.

The information set forth in the joint proxy statement under the headings Information about HomeStreet Business (beginning at page 139) is incorporated herein by reference.

Simplicity.

The information set forth in the joint proxy statement under the headings Information about Simplicity (beginning at page 277) is incorporated herein by reference.

FURTHER INFORMATION.

Further information concerning the merger can be found in the Applicant s permit application file and the documents filed in connection therewith at the California Department of Business Oversight, 320 West 4th Street, Suite 750, Los Angeles, California 90013. Copies of the joint proxy statement are available from the SEC s website at http://www.sec.gov, or from the Applicant by writing to Godfrey B. Evans, Executive Vice President, General Counsel and Corporate Secretary, HomeStreet, Inc., 601 Union Street Suite 2000, Seattle, Washington 98101.

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HEARING.

Any interested persons may attend the hearing, may (but need not) be represented by legal counsel, and will be given an opportunity to be heard. Any interested person will be entitled to the issuance of subpoenas to compel the attendance of witnesses and the production of books, documents and other items by applying for such subpoenas to the California Department of Business Oversight, 320 West 4th Street, Suite 750, Los Angeles, California 90013. If you are interested in this matter, you may appear at the hearing in favor of or in opposition to the granting of the Permit. Whether or not you plan to attend, you are invited to make your views known by sending correspondence for receipt prior to the date of the hearing to Theresa Leets, Senior Corporations Counsel for the California Commissioner of the California Department of Business Oversight, 320 West 4th Street, Suite 750, Los Angeles, California 90013.

The hearing will be held for the purpose of enabling the California Commissioner to determine the fairness of the terms and conditions of the issuance of the securities of the Applicant pursuant to the merger agreement and the merger and will be based upon the application and all papers and documents filed in connection therewith.
Section 25142 of the California Securities Law authorizes the California Commissioner to hold such hearing when securities will be issued in exchange for other outstanding securities (whether or not the security of transaction is exempt from qualification), to approve the terms and conditions of such issuance and exchange, and to determine whether such terms and conditions are fair, just and equitable.

A FINDING BY THE CALIFORNIA COMMISSIONER THAT THE PROPOSED TRANSACTION IS FAIR, JUST AND EQUITABLE, AND THE ISSUANCE OF A PERMIT THEREAFTER, IS NOT A RECOMMENDATION OF THE PROPOSED TRANSACTION, NOR IS IT A SOLICITATION OF A PROXY OR A RECOMMENDATION AS TO HOW A STOCKHOLDER SHOULD VOTE.

Los Angeles, California	Jan Lynn Owen Commissioner of Business Oversight
	By:
	Title:

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JOINT PROXY STATEMENT

This joint proxy statement is being furnished to the shareholders of HomeStreet, Inc., a Washington corporation and a registered savings and loan holding company whose principal place of business is in Seattle, Washington (HomeStreet), and the stockholders of Simplicity Bancorp, Inc., a Maryland corporation and a registered savings and loan holding company whose principal place of business is in Covina, California (Simplicity) in connection with special meetings of HomeStreet s shareholders and Simplicity s stockholders, respectively, pursuant to an Agreement and Plan of Merger between HomeStreet and Simplicity dated September 27, 2014 (the merger agreement). Upon the approval of HomeStreet s shareholders and Simplicity s stockholders at the respective special meetings called for such purpose, and the satisfaction of certain other conditions set forth in the merger agreement, Simplicity will merge with and into HomeStreet with HomeStreet as the surviving corporation (the merger). Simplicity stockholders will receive, as merger consideration, one share of HomeStreet common stock for each share of Simplicity common stock, subject to adjustment as described herein. Immediately after the merger, the parties wholly owned subsidiary banks will merge: Simplicity Bank into HomeStreet Bank, with HomeStreet Bank as the resulting bank. The parties to the Merger Agreement are:

HomeStreet, Inc.	Simplicity Bancorp, Inc.
Two Union Square Suite 2000	1359 N. Grand
601 Union Street	Covina, California 91724
Seattle, Washington 98101	

Each of the parties to the merger agreement is convening a special meeting of its shareholders to consider and vote upon proposals relating to the merger. HomeStreet is seeking the approval of the holders of a majority of the shares of its common stock voting at the HomeStreet special meeting on a proposal to approve the issuance of up to 7,479,964 shares of common stock as consideration to the Simplicity stockholders upon consummation of the Merger (such shares, the merger consideration). Simplicity is seeking the approval of a proposal approving the merger agreement, the merger and certain related transactions as further described herein, by the holders of shares representing a majority of its common stock outstanding and entitled to vote. Simplicity is also seeking the vote of its stockholders on an advisory proposal pertaining to the approval of certain compensation payable to its named executive officers in connection with the merger. Approval of this proposal will require the affirmative vote of a majority of the votes cast on the proposal. The meetings will take place at the times and places set forth below:

HomeStreet, Inc.	Simplicity Bancorp, Inc.
10:00 a.m. Pacific Standard Time	5:00 p.m. Pacific Standard Time
Thursday, January 29, 2015	Wednesday, February 11, 2015
Hilton Hotel	Hilton Pasadena Hotel
1301 Sixth Avenue	168 South Los Robles

Seattle, Washington 98101 Pasadena, California 91101

The record date for both the HomeStreet special meeting and the Simplicity special meeting is December , 2014. In the event there are not sufficient votes for a quorum, or to approve any matter being presented at the time of the special meeting, either of the special meetings may be adjourned to permit the further solicitation of proxies.

In addition, prior to the Simplicity special meeting, the California Commissioner of the California Department of Business Oversight, Division of Finance and Corporate Securities (the California Commissioner), will convene a hearing (the Fairness Hearing) at a date, time and location to be set by the California Commissioner and promulgated in appropriate notice to interested parties. The parties anticipate that the Fairness Hearing will be conducted in Los Angeles, California, on or about February 11, 2015. The purpose of the Fairness Hearing is to seek approval of a plan to register, pursuant to Sections 25121 and 25142 of the California Corporations Code, the shares of HomeStreet common stock that are to be issued as merger consideration. At the Fairness Hearing,

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HomeStreet and Simplicity will be seeking a registration permit to be issued by the California Commissioner (such determination, the Permit) based upon her determination that the plan to issue HomeStreet common stock as merger consideration pursuant to the merger agreement is fair, just and equitable. HomeStreet, as the proponent of a plan to issue securities upon consummation of the merger, and Simplicity, as a constituent of the merger, will present evidence in support of such a determination. Accompanying this joint proxy statement as mailed to Simplicity s stockholders is a formal notice of the Fairness Hearing (the Fairness Hearing Notice), and certain portions of the contents of this joint proxy statement are incorporated by reference into the Fairness Hearing Notice as further described therein.

A vote in favor of the merger by the stockholders of Simplicity, and a vote to approve the issuance of shares representing the merger consideration by the shareholders of HomeStreet, are investment decisions that involve risks and uncertainties. You should carefully review this joint proxy statement and the materials delivered herewith, particularly that section of this joint proxy statement entitled Risk Factors beginning at page 37, before deciding how to vote.

Neither the Securities and Exchange Commission nor the California Department of Business Oversight, nor the securities commissioner or administrator of any other jurisdiction, has passed upon the accuracy or adequacy of this joint proxy statement. Any contrary representation is a criminal offense.

The Permit, if and when issued by the California Department of Business Oversight, will not constitute a recommendation of the proposed transaction, nor does this Fairness Hearing Notice constitute a solicitation of proxies or a recommendation as to how you should vote on the proposals presented at the special meetings.

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JOINT PROXY STATEMENT

HOMESTREET, INC.	**Simplicity Bancorp, Inc.**
601 Union Street, Suite 2000	**1359 N. Grand**
Seattle, WA 98101	**Covina, California 91724**
(206) 623-3050	**(800) 524-2274**

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SUMMARY OF THE TRANSACTION

The Parties

About HomeStreet: HomeStreet is a diversified financial services company founded in 1921 and headquartered in Seattle, Washington. HomeStreet serves customers primarily in the Pacific Northwest, California and Hawaii. HomeStreet is principally engaged in real estate lending, including mortgage banking activities, and in commercial and consumer banking. HomeStreet s primary subsidiaries are HomeStreet Bank and HomeStreet Capital Corporation. HomeStreet Bank is a Washington chartered savings bank that provides residential and commercial loans, deposit products and services, non-deposit investment products, private banking and cash management services. HomeStreet Capital Corporation, a Washington corporation, originates, sells and services multifamily mortgage loans under the Fannie Mae Delegated Underwriting and Servicing Program (DUS®) in conjunction with HomeStreet Bank. At September 30, 2014, HomeStreet had total assets of $3.5 billion, deposits of $2.4 billion and shareholders equity of $294.6 million.

At November 3, 2014, HomeStreet Bank had 33 bank branches in the Puget Sound, Eastern and Southwest regions of Washington state, and in Portland, Oregon and Hawaii, as well as 55 stand-alone lending centers located in these same areas and in California, Arizona, the Eugene and Salem regions of Oregon, and the Boise and northern regions of Idaho. WMS LLC provides point-of-sale loan origination services at 44 Windermere Real Estate offices in Washington and Oregon.

On November 1, 2013, HomeStreet completed its acquisitions of Fortune Bank and of YNB Financial Services Corp., the parent company of Yakima National Bank. On December 6, 2013, HomeStreet acquired two retail deposit branches and certain related assets from AmericanWest Bank.

About Simplicity: Simplicity, formerly known as Kaiser Federal Financial Group, Inc., is a Maryland corporation that owns all of the outstanding common stock of Simplicity Bank, a federally chartered savings bank formerly known as Kaiser Federal Bank. Simplicity converted from the mutual holding company structure to a stock holding company structure in November 2010. Simplicity s sole operating subsidiary is Simplicity Bank, and unless the context otherwise requires, all references to Simplicity include Simplicity and Simplicity Bank on a consolidated basis. At September 30, 2014, Simplicity had consolidated assets of $863.4 million, deposits of $656.5 million and stockholders equity of $137.5 million.

Simplicity traces its history to 1953, and now operates as a community-oriented financial institution offering a variety of financial services to meet the needs of the communities it serves. Simplicity is headquartered in Covina, California, with branches in Glendora, Downey, Harbor City, Los Angeles, Panorama City and Pasadena to serve Los Angeles County and a branch in Fontana that serves San Bernardino county. Simplicity has a network of 45 ATMs located in Southern California and in the San Francisco Metropolitan Area.

Simplicity Bank s principal business activity consists of attracting retail deposits from the general public and originating or purchasing primarily loans secured by first mortgages on owner-occupied one-to-four family residences and multi-family residences located in its market area and, to a lesser extent, automobile, commercial real estate and other consumer loans. Simplicity Bank also engages in mortgage banking activities which primarily consists of the origination and sale of fixed rate conforming one-to-four family residential real estate loans in the secondary market

Shares of HomeStreet s common stock are traded on the Nasdaq Global Select Market under the symbol HMST.

with servicing primarily retained.

Shares of Simplicity s common stock are traded on the Nasdaq Global Select Market under the symbol SMPL.

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The Transaction

Important Note: This section and various other portions of this joint proxy statement contain summaries of the merger agreement and the transactions contemplated by the merger agreement. These summaries are not complete, and they may omit information that you might consider important. You should read the merger agreement, which is included as Annex A to this joint proxy statement, for a complete understanding of the actual terms of that agreement. Likewise, the descriptions of these provisions in this joint proxy statement do not modify, limit or qualify the terms or conditions of the merger agreement.

Structure	Upon consummation of the merger, Simplicity will merge with and into HomeStreet with HomeStreet as the surviving corporation. Immediately following that merger, Simplicity Bank will merge with and into HomeStreet Bank with HomeStreet Bank as the resulting bank. Both mergers will occur outside banking hours, so HomeStreet will never operate Simplicity Bank as a separate entity. References in this joint proxy statement to the merger relate only to the merger of the parent companies unless expressly indicated otherwise. See The Merger Summary of the Merger. The merger is intended to qualify as a tax-free reorganization under Section 368(a) of the Internal Revenue Code, and Simplicity stockholders who are U.S. persons therefore generally will not recognize gain or loss upon consummation of the merger and will retain a basis in the shares of HomeStreet common stock received as merger consideration equal to their adjusted basis in the Simplicity shares they held as of the effective time.
Merger Consideration	Upon consummation of the merger, each share of Simplicity common stock will be canceled and will represent only the right to receive the merger consideration (defined below) together with any accrued but unpaid dividends payable in respect of such share. The merger consideration will be a number of shares of HomeStreet common stock determined in accordance with an exchange ratio that may be adjusted based upon HomeStreet s average closing price. References in this joint proxy statement to the average closing price means the arithmetic average of HomeStreet s closing stock price, as reported by Nasdaq, for the ten consecutive trading days ending on (and excluding) the fifth trading day prior to the effective time. So long as the average closing price is equal to or greater than $15.00 per share and equal to or less than $20.00 per share, the exchange ratio will be one-for-one. In other words, if HomeStreet s average closing price falls within that range, each share of Simplicity common stock will be converted into a right to receive one share of HomeStreet common stock.
	If HomeStreet s average closing price is more than $20.00 per share, then the exchange ratio will be reduced such that each share of Simplicity common stock is converted into a right to receive a fraction of a share of HomeStreet common stock equal to (i) $20.00, divided by (ii) HomeStreet s average closing price.

If HomeStreet s average closing price during the measurement period is less than $15.00 per share, HomeStreet is permitted, but not required, to increase the exchange ratio such that each share of Simplicity common stock will be converted into a number of shares of HomeStreet common stock equal to (i) $15.00, divided by (ii) the average closing price. If HomeStreet elects not to increase the exchange ratio under those circumstances, then Simplicity has the option to terminate the merger agreement.

References in this joint proxy statement to the exchange ratio mean the one-for-one ratio described above, adjusted (as applicable) in accordance with the foregoing.

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Vote Required

The approval of the merger agreement and the merger requires the affirmative vote of the holders of a majority of the shares of Simplicity common stock outstanding and entitled to vote upon the proposal. The advisory proposal on certain executive compensation payable to Simplicity s named executive officers (the Merger-Related Executive Compensation) will be approved if the holders of a majority of the votes cast of Simplicity common stock vote to adopt the proposal. The record date for determining Simplicity shares entitled to notice of the Simplicity special meeting, and to vote upon the proposals considered there, is December 31, 2014.

A vote of HomeStreet s shareholders is not required for the approval of the merger agreement or the merger under the Washington Business Corporations Act. However, the Nasdaq listing qualifications rules require the approval of the holders of a majority of HomeStreet s common stock voting on the matter prior to the issuance of 20% or more of any listed class of securities in connection with a business combination transaction. The merger consideration will represent no less than 33% of HomeStreet s common stock, and thus HomeStreet cannot complete the merger without obtaining the approval of the issuance of the merger consideration by holders of a majority of the shares of HomeStreet common stock voting on the proposal at the HomeStreet special meeting. The record date for determining HomeStreet shares entitled to notice of the HomeStreet special meeting, and to vote upon the proposals considered there, is December 31, 2014.

In the event there are not sufficient votes for a quorum, or to approve any matter being presented at the time of the special meeting, either of the special meetings may be adjourned to permit the further solicitation of proxies.

Effect of the Merger on HomeStreet Shareholders

Holders of HomeStreet common stock will continue to hold their existing shares following the effective time of the merger. However, upon completion of the merger, current holders of HomeStreet common stock will experience dilution of their equity and voting power. The Simplicity shareholders will own approximately 33.2% of HomeStreet s outstanding common stock based on the number of shares of HomeStreet common stock outstanding as of December 31, 2014 and after giving effect to the merger.

Resales of Securities

Shares of HomeStreet common stock representing the merger consideration will be issued under an exemption from registration under the Securities Act of 1933, as amended (the Securities Act) set forth in Securities Act Section 3(a)(10), and will be listed for inclusion on the Nasdaq Global Select Market. Such shares, when held by persons who are not affiliates of HomeStreet, may be resold without registration under the Securities Act.

Anticipated Closing

The merger is expected to close shortly after the receipt of the requisite approvals of Simplicity s stockholders and HomeStreet s shareholders, the issuance of the Permit by the California Commissioner, the receipt of all required regulatory approvals, and the satisfaction or waiver of other conditions to closing set forth in the merger agreement. Assuming the shareholder meetings result in approval of the requisite proposals, we expect to consummate the merger on or about February 28, 2015.

Representations and Warranties	Each party has made customary representations and warranties to the other party in order to induce the respective parties to enter into and perform their obligations under the merger agreement. **You should not construe the representations and warranties described below, and contained in the merger agreement, to constitute assertions of fact upon which you may rely in making an investment decision**. The representations and warranties are subject to limitations, qualifications, exceptions and exclusions agreed

to by the parties, and certain of the representations and warranties are established solely or primarily to allocate risk between the parties. As such, they do not, and are not intended to, give rise to private remedies or serve as a basis for a shareholder s reliance in making an investment decision. The representations and warranties are briefly described in The Merger Summary of the Merger Representations and Warranties, beginning at page 114 below, and are set forth in Articles 4 and 5 of the merger agreement.

Operating Covenants

The merger agreement contains certain affirmative covenants requiring either or both parties to take specified actions during the period between signing and closing, and certain negative covenants prohibiting or restricting one or both parties from taking specified actions during that period. The parties believe that those covenants, which are set forth in Article 6 of the merger agreement, are appropriate and are customary for a transaction of this type. See The Merger Summary of the Merger Covenants and Agreements; Regulatory Matters; Employee Benefit Matters; Director and Officer Voting Agreements; Indemnification and Insurance; and Certain Additional Covenants, beginning at page 115 below.

Closing Conditions

The closing of the merger is conditioned upon, among other things:

- the continuing accuracy of each party s representations and warranties;
- the receipt of Simplicity stockholder approval and HomeStreet shareholder approval;
- the issuance of the Permit by the California Commissioner;
- the receipt of all required regulatory approvals, including but not limited to the approvals of bank regulatory authorities;
- the compliance by each party with its covenants as set forth in the merger agreement;
- there being no injunction from any governmental entity;
- the listing of the HomeStreet shares representing the merger consideration on the Nasdaq Global Select Market;

the HomeStreet closing price being at least $15.00 (unless HomeStreet has agreed to increase the number of shares to be issued as merger consideration so that the value of the merger consideration is equal to $15.00 per share);

actions have been taken to terminate certain of Simplicity s employee benefit plans; and

each party having complied with certain operating restrictions.

See The Merger Summary of the Merger Conditions to Complete the Merger beginning at page 128 below, and Article 7 of the merger agreement.

Termination and Breakup Fees; Specific Performance

The merger agreement contains customary termination provisions, including the ability of the parties to terminate by mutual agreement (whether or not the shareholder approvals have been obtained), the ability of one party to terminate because of a breach by the other party, the ability of HomeStreet to terminate the merger agreement if a third party commences a tender offer for more than 15% of Simplicity s common stock and Simplicity s Board fails to recommend publicly, within ten calendar days thereafter, that holders of Simplicity Common Stock refrain from tendering their shares, or if Simplicity (directly or by action of its affiliates or representatives) solicits or entertains an alternative transaction other than in compliance with the merger agreement, and the ability of Simplicity to terminate if its board of directors, in consultation with its financial advisor and legal counsel, determines that the board s fiduciary duties require Simplicity to terminate the merger agreement in order to accept a superior proposal. If Simplicity s board of directors fails to convene the Simplicity special meeting and submit a proposal to approve the merger and the merger agreement for a vote of Simplicity s stockholders, or if Simplicity s board of directors withdraws or qualifies its recommendation that Simplicity s stockholders vote their shares of Simplicity common stock in favor of the merger agreement and the merger, and Simplicity consummates another business combination under certain circumstances within twelve months after termination, then Simplicity must pay HomeStreet a termination fee of $5,272,612, which is approximately 4% of the transaction value using HomeStreet s average stock price over a ten-day measurement period that ended on (and excluded) the fifth trading day prior to the date of the merger agreement. This fee is also payable by Simplicity on the second business day following termination if the merger agreement is terminated in connection with Simplicity s acceptance of a superior proposal or if HomeStreet terminates the merger agreement after a third party commences a tender offer for 15% or more of Simplicity s common stock, unless Simplicity s board had previously reaffirmed its recommendation in favor of the merger agreement and the transactions contemplated thereby.

Additionally, each party may obtain injunctive relief to prevent a breach or wrongful termination of the merger agreement; provided, however, that HomeStreet may not seek or obtain injunctive relief at a time when Simplicity s board of directors is considering an acquisition proposal or to prevent Simplicity s board of directors from exercising its fiduciary out.

See The Merger Summary of the Merger Termination of the Merger Agreement; Effect of Termination; Termination Fee and Specific Performance.

Dissenters Rights

Dissenters rights are not available to the shareholders of either party to this transaction.

Interests of Simplicity s Directors and Executive Officers in the Merger.

Simplicity s directors and executive officers may have interests in the merger that are different from, or in addition to, the interests of Simplicity stockholders generally. These include:

the cancellation of stock options in exchange for a cash payment equal to the average closing price of HomeStreet s common stock (but not less than $15 or more than $20 per share) minus the exercise price for each option;

the acceleration of vesting of outstanding restricted stock awards, which will be exchanged for the merger consideration;

severance payments and benefits that certain executive officers may receive under certain severance arrangements and benefit plans;

the appointment of one director of Simplicity to the board of directors of HomeStreet and HomeStreet Bank following the completion of the merger; and

provisions in the merger agreement relating to directors and officers insurance for directors and officers of Simplicity for events occurring before the merger and the assumption of Simplicity s existing obligations under indemnification agreements with directors and executive officers.

Simplicity s board of directors was aware of these interests and took them into account in approving the merger. See The Merger Summary of the Merger Interests of Simplicity s Directors and Executive Officers in the Merger.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This joint proxy statement and other publicly available documents, including the documents incorporated herein and therein by reference, contain, and our officers and representatives may from time to time make, forward-looking statements within the meaning of the safe harbor provisions of the Sections 21D and 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements can be identified by words such as: anticipate, intend, plan, goal, seek, believe, project, estimate, expect, strategy, future, likely, may, should, will and s
periods. Examples of forward-looking statements include statements about:

- projections of revenues, estimated operating expenses or other financial items, including but not limited to pro forma financial statements;
- statements of the plans and objectives of management of HomeStreet for future operations or programs;
- statements regarding future operations, plans, or regulatory or shareholder approvals;
- statements concerning proposed new products or services;
- statements regarding the anticipated financial impact of completion of the merger, including but not limited to impacts to future cash flows, cost savings that may be achieved by integration of the companies and expected changes to shareholder value as a result of the merger;
- statements regarding legal or regulatory changes or developments affecting financial institutions generally and our business specifically;
- strategies for customer retention, growth, product development, market position, financial results and reserves, and the intended or expected effects of strategies;
- risk management strategies; and
- statements regarding future economic conditions or performance, and any statements or assumptions underlying any of the foregoing.

Forward-looking statements are neither historical facts nor assurances of future performance. Instead, they are based only on the current beliefs, expectations and assumptions of the executive management of the party making the statement. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict and many of which are outside of our control. Actual results and actions may differ materially from those indicated in the forward-looking statements. Therefore, you should not rely on any of these forward-looking statements as guarantees of a given outcome or assurances that either party will take an expected action. Important factors that could cause our actual results and financial condition to differ materially from those indicated in the forward-looking statements include, among others, the following:

- our ability to complete the merger, including resolving or disposing of any related litigation, and effectively integrate the operations of Simplicity and HomeStreet;

- expected cost savings, revenue enhancements, synergies and other financial benefits from the proposed merger which might not be realized within the expected time frames and costs or difficulties relating to integration matters which might be greater than expected;

- the ability of Simplicity and HomeStreet to obtain requisite shareholder and federal and state regulatory approvals for the transaction;

- the ability of HomeStreet and Simplicity to execute their respective business plans prior to the merger;

- general economic conditions, either nationally or in our market area, including increases in mortgage interest rates, declines in housing refinance activities, employment trends, business contraction, consumer confidence, real estate values and other recessionary pressures;

costs associated with the integration of Simplicity into HomeStreet and any other acquisitions or growth initiatives that may be pursued by the combined company;

time and attention required of our respective management teams to complete the merger and integrate our operations;

each party s ability to control costs while meeting operational needs and retaining key members of its senior management team and other key managers and business producers;

HomeStreet s ability to grow its geographic footprint and its various lines of business, and to manage that growth effectively, including its effectiveness in managing the associated costs and generating the expected revenues and strategic benefits;

compliance with existing and future regulatory requirements, including laws and regulations such as those related to the Dodd-Frank Act and new rules being promulgated under that Act, Basel III capital requirements and related regulations, as well as restrictions that may be imposed by the parties federal and state regulatory authorities, including the extent to which regulatory initiatives may affect capital, liquidity and earnings;

the impact of and ability to anticipate and respond effectively to changes in the levels of general interest rates, mortgage interest rates, deposit interest rates, our net interest margin and funding sources;

each party s ability to manage the credit risks of lending activities, including potential increases in loan delinquencies, nonperforming assets and write offs, decreased collateral values, inadequate loan reserve amounts and the effectiveness of hedging strategies;

each party s ability to implement and maintain appropriate disclosure controls and procedures and internal controls over financial reporting;

the effect on mortgage origination and resale operations of changes in mortgage markets generally, including the uncertain impact on the market for non-qualified mortgage loans resulting from regulations which took effect in January 2014, as well as in monetary policies and economic trends and initiatives as those events affect our mortgage origination and servicing operations;

compliance with requirements of private investors and/or government-owned or sponsored entities, including Fannie Mae, Freddie Mac, Ginnie Mae, the Federal Housing Administration the Department of Housing and Urban Development, and the Department of Veterans Affairs;

- each party s ability to maintain our data security, including unauthorized electronic access, physical custody and inadvertent disclosure, and including potential reputational harm and litigation risks;

- each party s ability to compete on price and other factors with other financial institutions; and

- such other factors as are discussed throughout the Risk Factors sections of this joint proxy statement and in the sections titled Management s Discussion and Analysis of Financial Condition and Results of Operations as well as the factors described in the Risk Factors and Management s Discussion and Analysis of Financial Condition and Results of Operations in each party s most recent 10-K and 10-Q.

Any forward-looking statement made by HomeStreet or Simplicity in this joint proxy statement is made in good faith and is based only on information currently available to that party and speaks only as of the date on which it is made. The parties undertake no obligation to publicly update any forward-looking statement, whether written or oral, that may be made from time to time, whether as a result of new information, future developments or otherwise.

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QUESTIONS AND ANSWERS ABOUT THE TRANSACTIONS

AND THE SPECIAL MEETINGS

Who are the parties to the merger?

HomeStreet is a 92-year-old financial institution with its principal place of business in Seattle, Washington. HomeStreet is a Washington corporation and a registered savings and loan holding company whose common stock is traded on the Nasdaq Global Select Market under the symbol HMST. HomeStreet s primary operating subsidiary, HomeStreet Bank, provides deposit products, commercial and consumer loans, and a broad range of banking products through its 33 branches and 55 lending centers in Washington, Oregon, California, Idaho and Hawaii. HomeStreet Capital Corporation sells and services multifamily mortgage loans under the Fannie Mae Delegated Underwriting and Servicing Program (DUS®)[1] and is one of only 24 participants in that nationwide program. As of September 30, 2014, HomeStreet had total assets of $3.47 billion, total deposits of $2.43 billion and shareholders equity of $294.6 million. See Information about HomeStreet.

Simplicity Bank is a 61-year-old financial institution with its principal place of business in Covina, California. Simplicity is a Maryland corporation and a registered savings and loan holding company whose common stock is traded on the Nasdaq Global Select Market under the symbol SMPL. Simplicity Bank s principal business activity consists of attracting retail deposits from the general public and originating or purchasing primarily loans secured by first mortgages on owner-occupied one-to-four family residences and multi-family residences located in its market area and, to a lesser extent, automobile, commercial real estate and other consumer loans. Simplicity Bank also engages in mortgage banking activities which primarily consists of the origination and sale of fixed rate conforming one-to-four family residential real estate loans in the secondary market with servicing primarily retained. At September 30, 2014, Simplicity had consolidated assets of $863.4 million, deposits of $656.5 million and stockholders equity of $137.5 million. See Information about Simplicity.

What am I being asked to vote upon?

Simplicity

Simplicity stockholders are being asked to vote upon a proposal to approve the merger agreement and the merger. The approval of the merger agreement and the merger requires the affirmative vote of the holders of a majority of the shares of Simplicity s common stock outstanding and entitled to vote on the matter. Abstentions and broker non-votes will thus have the same effect as a vote against the proposal to approve the merger and the merger agreement. Simplicity stockholders also are being asked to vote upon a non-binding advisory resolution regarding compensation payable to certain of Simplicity s named executive officers in connection with the merger (which we sometimes refer to as the Merger-Related Executive Compensation proposal). The Merger-Related Executive Compensation proposal will be approved if the holders of a majority of the votes cast of Simplicity common stock vote in favor of the proposal. Abstentions and broker non-votes will have no effect upon the Merger-Related Executive Compensation proposal. The Simplicity board of directors recommends Simplicity stockholders vote their shares FOR the approval of the merger agreement and the merger and FOR the Merger-Related Executive Compensation proposal.

HomeStreet

HomeStreet shareholders are being asked to vote upon a proposal to approve the issuance of up to 7,479,964 shares of HomeStreet common stock comprising the merger consideration. This proposal requires the affirmative vote of the holders of a majority of the shares of HomeStreet s outstanding common stock voting on the matter. The approval of

HomeStreet s shareholders is not required for approval of the merger agreement or the merger under the Washington Business Corporations Act. However, because the shares

[1] DUS® is a registered trademark of Fannie Mae.

expected to comprise the merger consideration will exceed 20% of the number of shares of HomeStreet s common stock outstanding prior to the transaction, applicable Nasdaq listing qualifications rules provide that the merger cannot be completed without the shareholders approval of the issuance of the shares of HomeStreet common stock to be issued as merger consideration. Assuming the presence of a quorum at the HomeStreet special meeting, abstentions and broker non-votes will have no effect upon the matters submitted for a vote of the HomeStreet shareholders. The HomeStreet board of directors recommends HomeStreet shareholders vote their shares FOR the authorization of the issuance of the shares comprising the merger consideration.

What will be the effect of the merger?

If the merger occurs, Simplicity will merge into HomeStreet with HomeStreet being the surviving corporation. Immediately thereafter, Simplicity Bank will merge with HomeStreet Bank with HomeStreet Bank as the resulting bank. The merger of the banking subsidiaries does not require the approval of the shareholders of HomeStreet or Simplicity stockholders.

What will Simplicity stockholders receive in the merger?

Simplicity stockholders will receive one share of HomeStreet common stock for each share of Simplicity common stock they hold as of the effective time. This exchange ratio will be adjusted downward if HomeStreet s average closing stock price during the ten consecutive trading day period ending on and excluding the fifth trading day prior to the effective time is greater than $20 per share. In such an instance, the exchange ratio will be computed by dividing $20 by the average closing price during that ten trading day measurement period. In this joint proxy statement we refer to HomeStreet s average closing stock price during the ten consecutive trading day period ending on and excluding the fifth trading day prior to the effective time as the average closing price.

Additionally, if HomeStreet s average closing price is below $15 per share, HomeStreet has the right but not the obligation to increase the exchange ratio to the quotient of $15 divided by the average closing price. If HomeStreet does not increase the exchange ratio under that circumstance, Simplicity s board of directors has the option to terminate the merger agreement. If due to an adjustment in the exchange ratio Simplicity Stockholders were to be entitled to fractional shares, cash will be paid in lieu of any such fractional shares. For more information, see The Merger General; Summary of the Merger Merger Consideration; and Summary of the Merger Conversion of Shares.

What happens to Simplicity stock options in the merger?

Immediately prior to the effective time, each outstanding option to purchase a share of Simplicity common stock, whether or not then vested, will be cancelled and the option holder will be entitled to receive a cash payment from Simplicity equal to the excess (if any) of the average closing price over the exercise price per share of the option, without interest and net of any withholding taxes. Any option which has an exercise price equal to or greater than the average closing price will be cancelled without payment.

What happens to Simplicity restricted stock awards in the merger?

Any shares of Simplicity common stock that are subject to restricted stock award agreements at the effective time will become fully vested and no longer subject to forfeiture. All shares of Simplicity restricted stock will be treated the same as any other outstanding share of Simplicity common stock, and thus will be exchanged for merger consideration as described herein.

Why are the companies proposing to merge?

The purpose of the Proposed Transaction is for HomeStreet Bank to establish a retail deposit presence in certain areas in the Southern California market and to increase its lending business in that market. HomeStreet Bank does not currently have any retail deposit taking bank branches in California. Simplicity Bank has seven branches in Southern California. Six are located in Los Angeles County and one is located in San Bernardino County. Although it has no retail deposit taking bank branches in California, HomeStreet

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Bank does have 17 home loan centers located in California. Seven of these home loan centers are in the Southern California market: four in San Diego County, two in Orange County and one in Los Angeles County. The remaining ten home loan centers are located in Northern California. Simplicity Bank has no lending offices other than at its branch locations.

HomeStreet believes that the merger will result in a combination of Simplicity Bank s strong Southern California retail franchise and HomeStreet Bank s growing regional consumer mortgage, residential construction and commercial real estate lending that will benefit both current and future customers. HomeStreet Bank s long history of exemplary corporate citizenship and community service will be leveraged to enhance the communities currently served by Simplicity Bank. The combination is also expected to improve HomeStreet s earnings diversification, provide opportunities to increase revenue as a result of higher lending limits and an expanded offering of products and services, and increase HomeStreet and HomeStreet Bank s tangible common equity significantly. This excess capital will be available to support HomeStreet s growth strategy. In addition, HomeStreet believes that significant consolidation of support operations will lead to meaningful operational efficiencies resulting in lower non-interest expense. *See* Background of and Reasons for the Merger.

Who will manage the combined company?

The board of directors of HomeStreet following the merger will consist of 11 directors, one of whom will be chosen from among the former Simplicity directors. All shareholders of the combined company will vote on directors as their terms of office expire. Following the merger, HomeStreet Bank will be managed by a board of 10 directors, one of whom will be chosen from among the former Simplicity directors, all of whom are elected by HomeStreet as the sole shareholder of HomeStreet Bank. See The Merger Resulting Boards of Directors of HomeStreet and HomeStreet Bank for the identity and background of the directors. Mark K. Mason, President, CEO and Vice Chairman of HomeStreet and President, CEO and Chairman of HomeStreet Bank, will continue in those positions with the combined organization. Simplicity s executive officers and (other than as noted above) directors will not continue with the surviving company or the resulting bank.

What will happen if Simplicity stockholders do not approve the Merger-Related Executive Compensation proposal?

The Merger-Related Executive Compensation proposal is a vote separate and apart from the vote to approve the merger agreement and the merger and related transactions. You may vote for the proposal to approve the merger and the merger agreement and against the advisory proposal relating to named executive officer compensation matters, or vice versa. Because the vote on this proposal is advisory only, it will not be binding on Simplicity or HomeStreet and will have no impact on whether the merger is consummated or whether any contractually obligated payments are made to Simplicity s named executive officers.

What do I need to do now?

Please read this joint proxy statement and then mail your signed proxy card in the enclosed return envelope, or submit your vote telephonically or through the Internet, as described in this joint proxy statement and on the accompanying proxy card, as soon as possible so that your shares can be represented at the HomeStreet special meeting or the Simplicity special meeting. The HomeStreet special meeting will take place on January 29, 2015 at 10:00 a.m., Pacific Standard Time, at the Hilton Hotel, 1301 Sixth Avenue, Seattle, Washington 98101. The Simplicity special meeting will take place on February 11, 2015 at 5:00 p.m., Pacific Standard Time, at the Hilton Pasadena Hotel, 168 South Los Robles Avenue, Pasadena, California 91101. See The HomeStreet special meeting or Simplicity special meeting, as appropriate.

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

Yes. You may change your vote at any time before your shares are voted at the applicable special meeting. You can do this in one of four ways. First, you can send a written notice stating that you would like to revoke your proxy. Second, you can complete and submit a new proxy card. If you choose either of these two methods, you must submit your notice of revocation or your new proxy card to HomeStreet or Simplicity, as the case may be. Third, you may submit a subsequent vote via telephone or the Internet as instructed on the accompanying proxy card, which will have the effect of canceling your previous vote. Finally, you may attend the special meeting and inform the Corporate Secretary that you wish to vote in person. Simply attending the meeting, however, will not revoke your proxy. If you hold your shares through a broker, nominee or other custodian, you must instruct that person to revoke your proxy, and you must comply with any procedures they may have established for revoking or replacing a previously executed proxy.

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

Your broker may vote your shares only if you provide instructions on how to vote. Please tell your broker how you wish your shares to be voted. If you do not tell your broker how to vote, your broker cannot vote your shares.

What constitutes a quorum ?

A quorum refers to the number of shares that must be represented at a meeting in order to lawfully conduct business. A majority of the outstanding common shares entitled to vote at the Simplicity special meeting, present in person or represented by proxy, will constitute a quorum at the Simplicity special meeting. Without a quorum, no business may be transacted at the Simplicity special meeting.

A majority of the outstanding common shares entitled to vote at the HomeStreet special meeting, present in person or represented by proxy, will constitute a quorum at the HomeStreet special meeting. Without a quorum, no business may be transacted at the HomeStreet special meeting. However, whether or not a quorum exists, a majority of the voting power of those present at the HomeStreet special meeting may adjourn the HomeStreet special meeting to another date, time and place.

How are abstentions and broker nonvotes treated?

Abstentions and broker nonvotes will be counted at each meeting for the purpose of determining the presence or absence of a quorum for the transaction of business. Approval of the merger agreement and the merger at the Simplicity special meeting requires the approval of a majority of the shares of Simplicity s common stock outstanding and entitled to vote upon the proposal. Accordingly, an abstention or a broker nonvote will have the same effect as a vote against the merger agreement and the merger. The Merger-Related Executive Compensation proposal will be approved (on an advisory basis) if holders of a majority of the votes cast of Simplicity common stock vote to adopt the proposal. Thus abstentions and broker nonvotes will have no effect upon the Merger-Related Executive Compensation proposal.

The approval of the issuance of the merger consideration by HomeStreet s shareholders requires the affirmative vote of the holders of shares representing a majority of the shares of HomeStreet common stock voting on the proposal. Accordingly, assuming the presence of a quorum, abstentions or broker non-votes will not affect the results of the matters to be considered at the HomeStreet special meeting.

What is the Fairness Hearing?

In order to comply with federal securities laws regarding the issuance of HomeStreet shares to Simplicity stockholders, HomeStreet has asked the California Commissioner to convene a Fairness Hearing before a hearing officer designated by the California Commissioner. At the Fairness Hearing, a hearing officer designated by the California Commissioner will consider the fairness of the terms and conditions of the merger and, if the California Commissioner finds that the merger is fair, just and equitable, she will approve it subject to any conditions, limitations or restrictions she finds necessary or appropriate.

Need I attend the Fairness Hearing?

Attendance at the Fairness Hearing is not required, but Simplicity stockholders are invited to attend the hearing if they choose. The Fairness Hearing will be public and one need not be a shareholder of either party to be admitted. Simplicity stockholders who wish to make comments on the record regarding the proposed merger may do so at the hearing or in writing as set forth in the notice sent to Simplicity stockholders with this joint proxy statement.

When do you expect the merger to be completed?

HomeStreet and Simplicity are working to complete the merger as quickly as possible. In addition to the Fairness Hearing and the requisite shareholder approvals, the parties must satisfy certain other conditions, including obtaining certain regulatory approvals, and there are other conditions to be satisfied before completing the merger. HomeStreet and Simplicity expect the merger to be completed during the first quarter of 2015. See The Merger Conditions to the Merger.

Will I still receive regular cash dividends?

The merger agreement permits Simplicity to continue paying regular quarterly dividends of not more than $0.09 per share unless the Simplicity board of directors determines that such dividends are not in the best interest of Simplicity or its stockholders. HomeStreet does not have a dividend policy and does not expect to declare dividends during the period between the date of this joint proxy statement and the effective time of the merger. Dividends declared after completion of the merger would be paid to all shareholders as of the record date for such dividend at the time and in the amounts determined by the surviving company s board of directors.

What are the tax consequences of the merger?

The merger is intended to qualify as a tax free reorganization. United States residents generally will not recognize gain or loss for federal income tax purposes, and will maintain a basis in the shares of HomeStreet common stock issued as merger consideration equal to their adjusted basis in the Simplicity stock as of the effective time. To review the tax consequences to Simplicity stockholders in greater detail, see United States Federal Income Tax Consequences of the Merger. The contents of this joint proxy statement are not tax advice, and you should consult your own tax advisor to assess the specific tax consequences to you.

Do the board of directors recommend approval of these proposals?

Simplicity s board of directors has approved the merger agreement and related merger and has unanimously recommended that Simplicity s stockholders vote **FOR** the merger agreement and related merger. Simplicity s board of directors also unanimously recommends that stockholders vote **FOR** the Merger-Related Executive Compensation proposal.

HomeStreet s board of directors has approved the merger agreement and has unanimously recommended that HomeStreet s shareholders vote **FOR** the approval of the issuance of HomeStreet common stock comprising the merger consideration.

Did Simplicity s board of directors receive a fairness opinion with respect to the merger?

Yes. In connection with the merger, Simplicity s financial advisor, Keefe, Bruyette & Woods, Inc. (KBW), delivered a written opinion, dated September 27, 2014, to the Simplicity board of directors as to

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the fairness, from a financial point of view and as of the date of the opinion, to the holders of Simplicity common stock of the exchange ratio in the proposed merger. The full text of the opinion, which describes the procedures followed, assumptions made, matters considered, and qualifications and limitations on the review undertaken by KBW in preparing the opinion, is attached as Annex D to this joint proxy statement. **The opinion was for the information of, and was directed to, the Simplicity board (in its capacity as such) in connection with its consideration of the financial terms of the merger. The opinion did not address the underlying business decision of Simplicity to engage in the merger or enter into the merger agreement or constitute a recommendation to the Simplicity board in connection with the merger, and it does not constitute a recommendation to any holder of Simplicity common stock or any shareholder of any other entity as to how to vote in connection with the merger or any other matter.**

Did HomeStreet s board of directors receive a fairness opinion with respect to the merger?

Yes. HomeStreet s board of directors received the opinion of MJ Capital Partners, L.P., a Los Angeles-based financial advisory firm whose principals have substantial experience in mergers and acquisitions involving financial institutions, that the issuance of the shares of HomeStreet common stock comprising the merger consideration is fair, from a financial point of view, to HomeStreet s shareholders. The full text of MJCP s written opinion is attached as Annex E to this joint proxy statement.

The opinion was for the information of, and was directed to, the HomeStreet board (in its capacity as such) in connection with its consideration of the financial terms of the merger. The opinion did not address the underlying business decision of HomeStreet to engage in the merger or enter into the merger agreement or constitute a recommendation to the HomeStreet board in connection with the merger, and it does not constitute a recommendation to any holder of HomeStreet common stock or any shareholder of any other entity as to how to vote in connection with the approval of the issuance of additional shares of HomeStreet common stock or any other matter.

What if I just want cash for my shares?

Under Maryland law, Simplicity s stockholders do not have the right to dissent from the merger and obtain payment for the appraised value of their shares. Similarly, the merger does not give HomeStreet shareholders the right to dissent from the transaction and obtain payment for their shares under Washington law. You may sell your shares in the stock market or in a privately negotiated transaction if you wish. See The Merger Summary of the Merger Dissenters Rights.

How do I vote?

You can vote on matters that properly come before the HomeStreet special meeting or the Simplicity special meeting, as the case may be, in one of four ways:

You may vote by mail.

You do this by marking, signing and dating the proxy card and mailing it in the enclosed, prepaid and addressed envelope or otherwise mailing it to us at our mailing address on the cover page of this joint proxy statement prior to the shareholder meeting. If you mark your voting instructions on the proxy card, your shares will be voted as you instruct.

You may vote by telephone.

To vote by telephone, please follow the instructions for telephone voting included on the enclosed proxy card, using the toll-free number printed there, so that your shares will be voted as you instruct.

You may vote via the Internet.

To vote via the Internet, please follow the instructions for Internet voting included on the enclosed proxy card, using the website address printed there, so that your shares will be voted as you instruct.

You may vote in person at the meeting.

You can vote in person at the meeting. However, if you hold your shares in street name (in the name of a brokerage firm, bank or other nominee), you must request and receive a legal proxy from the record owner prior to the meeting in order to vote at the meeting.

In order to facilitate an orderly meeting, we request that you provide your board of directors your vote prior to the meeting by completing and returning the enclosed proxy card as soon as possible.

Who may attend the special meeting?

For each of the special meetings, only the shareholders of record of that company, the duly appointed proxy holders of such shareholders of record, and other invitees of the board of directors or management of such company may attend that special meeting.

Can I vote shares of restricted stock that I hold pursuant to a restricted stock award?

If you hold shares of restricted stock issued under any equity compensation plan of Simplicity or HomeStreet that were outstanding on the record date, you have the right to vote your shares to approve the proposal or proposals to be voted on at the relevant special meeting regardless of whether or not the award is fully vested. You can vote your shares of restricted stock the same as any other shares of that company s common stock, according to the instructions provided on your proxy card.

If I hold stock options, a restricted stock unit or a performance stock unit, do I have any voting rights?

If you hold stock options exercisable for either company s common stock, you may not vote the shares issuable upon exercise of the option unless you properly exercise the option on or before the record date for that company s special meeting. If you hold a restricted stock unit or a performance stock unit issued under an equity compensation plan of either company that had not vested and converted into a share of common stock as of the record date, you do not have any right to vote the shares underlying that award, even if the award subsequently vested and shares of restricted stock were issued to you in connection with such vesting.

What if my shares are held in street name?

If you are the beneficial owner of shares held by a broker in street name, your broker, as the record holder of the shares, is required to vote the shares in accordance with your instructions. If you do not give instructions to your broker, your broker will not be permitted to vote your shares with respect to the proposal to approve the merger and the Merger-Related Executive Compensation proposal (as to the Simplicity special meeting) or to approve the issuance of shares comprising the merger consideration (as to the HomeStreet special meeting).

If your shares are held in street name, you will need proof of ownership to be admitted to the shareholder meeting. A recent brokerage statement or a letter from the record holder of your shares is an example of proof of ownership. If you want to vote shares held in street name in person at the shareholder meeting, you will have to get a written proxy in your name from the broker, bank or other nominee who holds your shares.

What happens if I sign and return my proxy card, but don t mark my votes?

In the case of Simplicity stockholders who submit a signed proxy without marking a vote on the proxy card, Simplicity s board of directors, will vote your shares: FOR the approval of the merger agreement, the merger and the related transactions and FOR the non-binding, advisory resolution pertaining to certain payments to be made to our named executive officers upon consummation of the merger.

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In the case of HomeStreet shareholders who submit a signed proxy without marking a vote on the proxy card, David A. Ederer, Chairman of the Board of Directors, and Godfrey B. Evans, our Corporate Secretary, General Counsel and Chief Administrative Officer, will vote your shares as recommended by HomeStreet s board of directors: FOR the approval of the resolution authorizing the issuance of shares comprising the merger consideration.

What happens if additional matters are presented at my shareholder meeting?

If any other matters are properly presented for consideration at the shareholder meetings, including, among other things, consideration of a motion to adjourn the meeting to another time or place (including, without limitation, for the purpose of soliciting additional proxies), the persons named as proxy holders will have discretion to vote on those matters in accordance with their best judgment. We do not currently anticipate that any other matters will be raised at either meeting.

Who will count the votes?

American Stock Transfer & Trust Company, LLC, HomeStreet s stock transfer agent, will serve as the inspector of elections at the HomeStreet special meeting and in that capacity will count and tabulate the votes. Broadridge, Simplicity s stock transfer agent, will serve as the inspector of elections at the Simplicity special meeting and in that capacity will count and tabulate the votes.

Where can I find the results of the shareholder meetings?

We intend to announce preliminary voting results at each meeting, and each company will publish final results in a Current Report on Form 8-K, which will be filed with the Securities and Exchange Commission within four (4) business days after the respective meeting.

What does it mean if I get more than one proxy card?

It means that you own both Simplicity and HomeStreet common stock, or that you have multiple stock ownership accounts in either or both companies. For example, you may own shares directly as a record holder and through one or more brokers, trustees or other nominees as a beneficial owner, in which case your broker or other nominee will solicit your instructions as to how you wish those shares to be voted. Please mark, sign and return all proxy cards or comply with the telephonic or Internet voting instructions on each card to ensure that all your shares are voted.

What percentage of stock do the directors and executive officers own?

Simplicity s directors and executive officers had or shared the right to vote or dispose of approximately 315,467 shares of Simplicity s common stock as of the record date for the Simplicity special meeting. Each Simplicity director has entered into a voting agreement pursuant to which he or she is obligated to vote in favor of the merger all shares of Simplicity common stock owned or acquired, and he or she is prohibited from transferring shares of Simplicity common stock with limited exceptions for certain gifts and estate planning transfers. HomeStreet s directors and executive officers had or shared the right to vote or dispose of approximately 1,814,680.167 shares of HomeStreet s common stock as of the record date for the HomeStreet special meeting. HomeStreet s directors are expected to vote their shares of HomeStreet common stock in favor of the resolution to approve the issuance of the merger consideration, although none of them is obligated to do so.

Who is paying the cost of preparing, assembling and mailing the notices of the shareholder meetings, this joint proxy statement and form of proxy, and the solicitation of the proxies?

HomeStreet is paying all such costs for the HomeStreet special meeting and Simplicity is paying such costs for the Simplicity special meeting. Each company may reimburse brokerage firms, custodians, nominees, fiduciaries and other persons representing beneficial owners for their reasonable expenses in forwarding

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solicitation material to that company s beneficial owners. Each company s directors, officers and employees may also solicit proxies in person or by other means of communication. Such directors, officers and employees will not be additionally compensated but may be reimbursed for reasonable out-of-pocket expenses in connection with such solicitation.

Who can help answer any other questions I may have?

Simplicity stockholders should please contact Simplicity s stockholder relations by calling (800) 524-2274, or by writing to Simplicity Bancorp, Inc., attn.: Stockholder Relations at 1359 North Grand Avenue, Covina, California 91724 or by electronic email at ir@simplicitybank.com

HomeStreet shareholders should please contact HomeStreet s investor relations department by calling 206-264-4200, by writing to HomeStreet, Inc., attn.: Investor Relations, 2000 Two Union Square, 601 Union Street, Seattle, Washington 98101 or by electronic mail at ir@homestreet.com

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SELECTED FINANCIAL DATA

HomeStreet, Inc.

The following selected consolidated financial information as of and for the fiscal years ended December 31, 2009 through December 31, 2013 is derived from audited consolidated financial statements of HomeStreet. The consolidated financial information as of and for the nine months ended September 30, 2014 and 2013 is derived from unaudited consolidated financial statements and, in the opinion of HomeStreet s management, reflects all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of these data for those dates. The results of operations for the nine months ended September 30, 2014 are not necessarily indicative of the results that may be expected for the entire fiscal year ending December 31, 2014. You should not assume the results of operations for any past periods indicate results for any future period. You should read this information in conjunction with HomeStreet s consolidated financial statements and related notes thereto included in HomeStreet s Annual Report on Form 10-K for the fiscal year ended December 31, 2013, and in its Quarterly Report on Form 10-Q for the period ended September 30, 2014, which are incorporated by reference into this joint proxy statement. See Where You Can Find More Information.

(dollars in thousands, except share data)	At or For the Nine Months Ended September 30,		At or for the Year Ended December 31,				
	2014	**2013**	**2013**	**2012**	**2011**	**2010**	**2009**
Income statement data (for the period ended):							
Net interest income	$ 71,167	$ 53,062	$ 74,444	$ 60,743	$ 48,494	$ 39,276	$ 31,502
Provision (reversal of provision) for credit losses	(1,500)	900	900	11,500	3,300	37,300	153,515
Noninterest income	134,170	154,673	190,745	238,020	97,205	90,474	59,230
Noninterest expense	183,220	170,627	229,495	183,591	126,494	126,000	94,448
Net income (loss) before tax expense (benefit)	23,617	36,208	34,794	103,672	15,905	(33,550)	(157,231)
Income tax expense (benefit)	6,979	11,538	10,985	21,546	(214)	697	(46,955)

Net income (loss)	$	16,638	$	24,670	$	23,809	$	82,126	$	16,119	$	(34,247)	$	(110,276)
Basic income (loss) per common share[(1)]	$	1.12	$	1.72	$	1.65	$	6.17	$	2.98	$	(6.34)	$	(20.41)
Diluted income (loss) per common share[(1)]	$	1.11	$	1.67	$	1.61	$	5.98	$	2.80	$	(6.34)	$	(20.41)
Common shares outstanding[(1)]		14,852,971		14,422,354		14,799,991		14,382,638		5,403,498		5,403,498		5,403,498
Weighted average number of shares outstanding:														
Basic		14,797,019		14,374,943		14,412,059		13,312,939		5,403,498		5,403,498		5,403,498
Diluted		14,957,034		14,793,427		14,798,168		13,739,398		5,748,342		5,403,498		5,403,498
Dividends per share	$	0.11	$	0.22	$	0.33	$		$		$		$	
Book value per share	$	19.83	$	18.60	$	17.97	$	18.34	$	15.99	$	10.88	$	17.01
Financial position (at year end):														
Cash and cash equivalents	$	34,687	$	37,906	$	33,908	$	25,285	$	263,302	$	72,639	$	217,103
Investment securities		449,948		574,894		498,816		416,517		329,242		313,715		658,058
Loans held for sale[(2)]		698,111		385,110		279,941		620,799		150,409		212,602		57,046
Loans held for investment, net		1,964,762		1,510,169		1,871,813		1,308,974		1,300,873		1,538,521		1,964,994
Mortgage servicing rights[(2)]		124,593		146,300		162,463		95,493		77,281		87,232		78,372
Other real estate owned		10,478		12,266		12,911		23,941		38,572		170,455		107,782
Total assets		3,474,656		2,854,323		3,066,054		2,631,230		2,264,957		2,485,697		3,209,536
Deposits		2,425,458		2,098,076		2,210,821		1,976,835		2,009,755		2,129,742		2,332,333
Federal Home Loan Bank advances		598,590		338,690		446,590		259,090		57,919		165,869		677,840
Shareholders equity		294,568		268,208		265,926		263,762		86,407		58,789		91,896

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(dollars in thousands, except share data)	At or For the Nine Months Ended September 30, 2014	2013	At or for the Year Ended December 31, 2013	2012	2011	2010	2009
Financial position (averages):							
Investment securities	$ 460,723	$ 497,857	$ 515,000	$ 410,819	$ 306,813	$ 457,930	$ 372,320
Loans held for investment	1,838,526	1,406,582	1,496,146	1,303,010	1,477,976	1,868,035	2,307,215
Total interest-earning assets	2,777,988	2,347,560	2,422,136	2,167,363	2,069,858	2,642,693	3,056,755
Total interest-bearing deposits	1,880,664	1,519,615	1,590,492	1,644,859	1,814,464	2,071,237	2,012,971
Federal Home Loan Bank advances	372,605	277,192	293,871	93,325	93,755	382,083	685,715
Total interest-bearing liabilities	2,319,872	1,906,023	2,023,409	1,817,847	1,970,725	2,522,767	2,776,163
Shareholders equity	$ 284,146	$ 275,463	$ 249,081	$ 211,329	$ 68,537	$ 89,267	$ 160,145
Financial performance:							
Return on average shareholders equity(3)	7.81%	11.94%	9.56%	38.86%	23.52%	-38.00%	-68.86%
Return on average total assets	0.71%	1.25%	0.88%	3.42%	0.70%	-1.19%	-3.47%
Net interest margin(4)	3.50%	3.12%(5)	3.17%(5)	2.89%	2.36%	1.50%	1.04%
Efficiency ratio(6)	89.23%	82.14%	86.54%	61.45%	86.82%	97.24%	104.10%
Asset quality:							
Allowance for credit losses	$ 22,111	$ 24,894	$ 24,089	$ 27,751	$ 42,800	$ 64,566	$ 110,422
Allowance for loan losses/total loans	1.10%(7)	1.61%	1.26%(7)	2.06%	3.18%	4.00%	5.28%
Allowance for loan losses/nonaccrual loans	109.75%	92.30%	93.00%	92.20%	55.81%	56.69%	29.25%
Total nonaccrual loans(8)	$ 19,906(9)	$ 26,753	$ 25,707(9)	$ 29,892	$ 76,484	$ 113,210	$ 374,218

Nonaccrual loans/total loans	1.00%	1.74%	1.36%	2.24%	5.69%	7.06%	18.04%
Other real estate owned	$ 10,478	$ 12,266	$ 12,911	$ 23,941	$ 38,572	$ 170,455	$ 107,782
Total nonperforming assets	$ 30,384	$ 39,019	$ 38,618	$ 53,833	$ 115,056	$ 283,665	$ 482,000
Nonperforming assets/total assets	0.87%	1.37%	1.26%	2.05%	5.08%	11.41%	15.02%
Net charge-offs	$ 478	$ 3,757	$ 4,562	$ 26,549	$ 25,066	$ 83,156	$ 101,680
Regulatory capital ratios for the Bank:							
Tier 1 leverage capital (to average assets)	9.63%	10.85%	9.96%	11.78%	6.04%	4.52%	4.53%
Tier 1 risk-based capital (to risk-weighted assets)	13.03%	17.19%	14.28%	18.05%	9.88%	6.88%	7.19%
Total risk-based capital (to risk-weighted assets)	13.96%	18.44%	15.46%	19.31%	11.15%	8.16%	8.50%

(1) Share and per share data shown after giving effect to the 2-for-1 forward stock splits effective March 6, 2012 and November 5, 2012 , as well as the 1-for-2.5 reverse stock split effective July 19, 2011.

(2) On January 1, 2010 we elected to carry mortgage servicing rights related to single family loans at fair value, and elected to carry single family mortgage loans held for sale using the fair value option.

(3) Net earnings (loss) available to common shareholders (annualized) divided by average shareholders equity.

(4) Net interest income divided by total average interest-earning assets on a tax equivalent basis.

(5) Net interest margin for the nine months ended September 30, 2013 and for the year ended December 31, 2013 included $1.4 million in interest expense related to the correction of the cumulative effect of an error in prior years, resulting from the under accrual of interest due on the TruPS for which the Company had deferred the payment of interest. Excluding the impact of the prior period interest expense correction, the net interest margin was 3.21% for the nine months ended September 30, 2013 and 3.23% for the year ended December 31, 2013.

(6) Noninterest expense divided by total revenue (net interest income and noninterest income).

(7) Includes loans acquired with bank acquisitions. Excluding acquired loans, allowance for loan losses/total loans was 1.18% and 1.40% at September 30, 2014 and December 31, 2013, respectively.

(8) Generally, loans are placed on nonaccrual status when they are 90 or more days past due.

(9) Includes $6.3 million and $6.5 million of nonperforming loans at September 30, 2014 and December 31, 2013, respectively, that are guaranteed by the Small Business Administration.

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SELECTED FINANCIAL DATA

Simplicity Bancorp, Inc.

The following selected consolidated financial information as of and for the fiscal years ended June 30, 2010 through June 30, 2014 is derived from audited consolidated financial statements of Simplicity. The consolidated financial information as of and for the three months ended September 30, 2014 and 2013 is derived from unaudited consolidated financial statements and, in the opinion of Simplicity s management, reflects all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of these data for those dates. The results of operations for the three months ended September 30, 2014 are not necessarily indicative of the results that may be expected for the entire fiscal year ending June 30, 2015. You should not assume the results of operations for any past periods indicate results for any future period. You should read this information in conjunction with Simplicity s consolidated financial statements and related notes thereto included in Simplicity s Annual Report on Form 10-K for the fiscal year ended June 30, 2014, and in its Quarterly Report on Form 10-Q for the period ended September 30, 2014, which are incorporated by reference into this joint proxy statement. See Where You Can Find More Information.

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	At or for the Three Months Ended September 30,		At or for the Year Ended June 30,				
	2014	2013	2014	2013	2012	2011	2010
Selected Financial Condition Data (dollars in thousands):							
Total assets	863,351	834,605	$ 879,188	$ 867,377	$ 923,330	$ 856,439	$ 866,802
Cash and cash equivalents	79,101	34,982	69,253	85,674	66,018	89,654	39,560
Interest-earning time deposits in other financial institutions						11,669	19,267
Securities available-for-sale	54,029	48,128	56,883	52,180	53,397	16,038	2,290
Securities held-to-maturity	377	475	395	525	1,197	2,202	3,751
Federal Home Loan Bank stock	5,519	5,902	5,519	5,902	8,525	10,334	12,179
Loans receivable, net	693,483	713,830	715,750	689,708	764,717	696,646	757,985
Deposits	656,542	626,873	652,823	654,646	682,889	634,709	630,694
Borrowings	65,000	60,000	85,000	60,000	80,000	60,000	137,000
Total stockholders equity	137,541	144,020	136,886	145,438	154,148	157,399	94,705
Selected Operating Data (dollars in thousands, except share data):							
Total interest income	8,064	8,294	$ 33,430	$ 36,329	$ 40,629	$ 43,586	$ 45,014
Total interest expense	1,670	1,640	6,404	7,870	10,616	13,940	18,088
Net interest income	6,394	6,654	27,026	28,459	30,013	29,646	26,926
(Credit) provision for loan losses	(350)		(700)	250	250	950	9,867
Net interest income after (credit) provision for loan losses	6,744	6,654	27,726	28,209	29,763	28,696	17,059
Total noninterest income	1,390	1,459	5,639	6,680	4,677	4,101	4,689
Total noninterest expense	6,096	6,288	24,890	25,139	22,922	19,164	17,022
Income before income tax expense	2,038	1,825	8,475	9,750	11,518	13,633	4,726

Income tax expense	962	676	3,162	3,529	4,298	4,880	1,386
Net income	$ 1,076	$ 1,149	$ 5,313	$ 6,221	$ 7,220	$ 8,753	$ 3,340
Basic earnings per share	$ 0.15	$ 0.15	$ 0.72	$ 0.76	$ 0.81	$ 0.95	$ 0.35
Diluted earnings per share	$ 0.15	$ 0.15	$ 0.72	$ 0.76	$ 0.81	$ 0.95	$ 0.35
Dividends per share	$ 0.09	$ 0.08	$ 0.33	$ 0.32	$ 0.26	$ 0.31	$ 0.61
Selected Operating Ratios:							
Return on assets (ratio of net income to average total assets)	0.49%	0.54%	0.62%	0.69%	0.79%	1.00%	0.38%
Return on equity (ratio of net income to average total equity)	3.14%	3.18%	3.78%	4.16%	4.57%	6.62%	3.58%
Dividend payout ratio(1)	58.92%	53.79%	45.69%	42.07%	32.24%	33.04%	172.31%
Ratio of noninterest expense to average total assets	2.79%	2.96%	2.87%	2.78%	2.48%	2.23%	1.92%
Efficiency ratio(2)	77.88%	77.34%	75.94%	71.33%	65.89%	57.26%	53.84%
Ratio of average interest-earning assets to average interest-bearing liabilities	123.94%	127.17%	126.18%	126.98%	127.58%	123.49%	115.90%
Average interest rate spread	2.86%	3.06%	3.10%	3.07%	3.09%	3.15%	2.84%
Interest rate spread at end of year(3)	2.81%	3.14%	2.95%	3.01%	3.16%	3.22%	3.17%
Net interest margin(4)	3.05%	3.28%	3.30%	3.32%	3.42%	3.54%	3.18%
Asset Quality Ratios:							
Non-performing assets to total assets	0.86%	1.66%	0.90%	1.84%	2.89%	3.18%	3.79%
Allowance for loan losses to non-performing loans(5)	60.86%	40.59%	59.88%	35.45%	29.54%	43.06%	42.32%
Allowance for loan losses to total loans(5)(6)	0.62%	0.76%	0.64%	0.81%	0.97%	1.61%	1.73%
	-0.06%	0.09%	0.05%	0.29%	0.55%	0.39%	0.15%

Net charge-offs to average outstanding loans							
Non-performing loans to total loans	1.02%	1.88%	1.06%	2.29%	3.29%	3.73%	4.08%
Capital Ratios:							
Equity to total assets at end of year	15.93%	17.26%	15.57%	16.77%	16.69%	18.38%	10.93%
Average equity to average assets	15.68%	17.03%	16.45%	16.70%	17.23%	15.06%	10.51%
Tier 1 leverage (Bank only)	14.59%	14.25%	14.13%	15.28%	13.52%	13.67%	9.42%
Tier 1 risk-based (Bank only)	22.37%	20.18%	20.89%	22.87%	19.90%	20.79%	13.48%
Total risk-based (Bank only)	23.15%	21.12%	21.66%	23.85%	21.10%	21.87%	14.73%
Other Data:							
Number of branches	7	7	7	7	9	9	9
Number of ATMs	45	57	45	58	58	58	57
Number of loans	7,958	6,972	8,071	7,089	6,623	5,838	7,219
Number of deposit accounts	58,259	63,427	59,555	65,085	68,726	67,317	67,439
Assets in millions per total number of full-time equivalent employees	$ 7.19	$ 6.32	$ 7.36	$ 6.75	$ 7.16	$ 7.55	$ 8.54

(footnotes begin on next page)

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(1) The dividend payout ratio is calculated using dividends declared (including those waived by K-Fed Bancorp s mutual holding company parent, K-Fed Mutual Holding Company for periods prior to November 19, 2010) divided by net income.

	At or for the Year Ended June 30, (Dollars in thousands)	
	2011	**2010**
Total dividends paid	$ 1,917	$ 1,856
Total dividends waived by K-Fed Mutual Holding Company	$ 975	$ 3,899
Total dividends paid and total dividends waived by K-Fed Mutual Holding Company	$ 2,892	$ 5,755

(2) Efficiency ratio represents noninterest expense as a percentage of net interest income plus noninterest income.
(3) The spread between average yield on total interest-earning assets and average cost on total interest-bearing liabilities.
(4) Net interest income divided by average interest-earning assets.
(5) The allowance for loan losses at September 30, 2014 and 2013 was $4.3 million and $5.5 million, respectively. At June 30, 2014, 2013, 2012, 2011, and 2010, the allowance for loan losses was $4.6 million, $5.6 million, $7.5 million, $11.4 million, and $13.3 million, respectively.
(6) Total loans are reported at their outstanding principal balances, net of charge-offs and interest payments received on impaired loans on non-accrual status.

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UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

The following unaudited pro forma condensed combined financial information and explanatory notes show the impact on the historical financial positions and results of operations of HomeStreet and Simplicity and have been prepared to illustrate the effects of the merger involving HomeStreet and Simplicity under the acquisition method of accounting with HomeStreet treated as the acquiror.

Under the acquisition method of accounting, the assets and liabilities of Simplicity, as of the effective date of the merger, will be recorded by HomeStreet at fair value and the excess of the merger consideration over the fair value of Simplicity s net assets will be allocated to goodwill. The unaudited pro forma condensed combined balance sheet as of September 30, 2014 is presented as if the merger with Simplicity had occurred on September 30, 2014. The unaudited pro forma condensed combined income statements for the fiscal year ended December 31, 2013 and the nine months ended September 30, 2014 are presented as if the merger had occurred on January 1, 2013. The historical consolidated financial information has been adjusted to reflect factually supportable items that are directly attributable to the merger and, with respect to the income statements only, expected to have a continuing impact on consolidated results of operations. The fiscal year end of HomeStreet, which is December 31, does not coincide with the fiscal year end of Simplicity, which is June 30. We have presented the pro forma combined income statements and income statement data to conform to HomeStreet s fiscal year end of December 31. We used respective Simplicity quarterly and annual filings to derive Simplicity historical consolidated financial information. In addition, Simplicity historical consolidated financial information has been conformed to HomeStreet classifications and policies.

The unaudited pro forma condensed combined financial information is presented for illustrative purposes only and does not necessarily indicate the financial results of the combined companies had the companies actually been combined at the beginning of the periods presented. The adjustments included in these unaudited pro forma condensed combined financial statements are preliminary and may be revised. The unaudited pro forma condensed combined financial information also does not consider the impact of any potential revenue enhancements, anticipated cost savings and expense efficiencies, or asset dispositions, among other factors.

As explained in more detail in the accompanying notes to the unaudited pro forma condensed combined financial information, the pro forma allocation of purchase price reflected in the unaudited pro forma condensed combined financial information is subject to adjustment and may vary from the actual purchase price allocation that will be recorded at the time the merger is completed. Adjustments may include, but not to be limited to, changes in (1) Simplicity s balance sheet through the effective time of the merger; (2) the aggregate value of merger consideration paid if the price of HomeStreet s stock varies from the assumed $17.83 per share, which represents HomeStreet s 10-day average closing stock prices as of market close on September 19, 2014; (3) total merger related expenses if consummation and/or implementation costs vary from currently estimated amounts; and (4) the underlying values of assets and liabilities if market conditions differ from current assumptions.

The preparation of the unaudited pro forma condensed combined financial information and related adjustments required management to make certain assumptions and estimates. The unaudited pro forma condensed combined financial statements should be read together with:

- the accompanying notes to the unaudited pro forma condensed combined financial information;

HomeStreet s separate audited historical consolidated financial statements and accompanying notes as of and for the year ended December 31, 2013, included in HomeStreet s Annual Report on Form 10-K for the year ended December 31, 2013;

Simplicity s separate audited historical consolidated financial statements and accompanying notes as of and for the year ended June 30, 2014 included in Simplicity s Annual Report on Form 10-K for the year ended June 30, 2014;

HomeStreet s separate unaudited historical consolidated financial statements and accompanying notes as of and for the period ended September 30, 2014 included in HomeStreet s Quarterly Report on Form 10-Q for the period ended September 30, 2014;

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Simplicity s separate unaudited historical consolidated financial statements and accompanying notes as of and for the period ended September 30, 2014 included in Simplicity s Quarterly Report on Form 10-Q for the period ended September 30, 2014; and

other information pertaining to HomeStreet and Simplicity contained in or incorporated by reference into this joint proxy statement. See Selected Consolidated Historical Financial Data of HomeStreet and Selected Consolidated Historical Financial Data of Simplicity included elsewhere in this joint proxy statement.

Unaudited Pro Forma Condensed Combined Balance Sheet as of September 30, 2014

(dollars in thousands)	Homestreet Historical	Simplicity Historical	Pro Forma Merger Adjustments	Notes	Pro Forma Combined
Assets					
Cash and cash equivalents	$ 34,687	$ 79,101	$ (12,571)	**A**	$ 101,217
Investment securities	449,948	54,406	11	**B**	504,365
Loans held for sale	698,111	3,116			701,227
Loans held for investment	1,986,609	697,813	(15,587)	**C**	2,668,835
Less: allowance for loan and lease losses	(21,847)	(4,330)	4,330	**D**	(21,847)
Loans held for investment, net	1,964,762	693,483	(11,257)		2,646,988
Mortgage servicing rights	124,593	850	342	**E**	125,785
Other real estate owned	10,478	306			10,784
Federal Home Loan Bank stock	34,271	5,519			39,790
Premises and equipment, net	44,476	3,560			48,036
Goodwill	11,945	3,950	(3,226)	**F**	12,669
Other assets	101,385	19,060	11,807	**G**	132,252
Total assets	$ 3,474,656	$ 863,351	$ (14,894)		$ 4,323,113
Liabilities					
Deposits	2,425,458	656,542	5,920	**H**	3,087,920
Federal Home Loan Bank advances	598,590	65,000	1,066	**I**	664,656
Securities sold under agreements to repurchase	14,225				14,225
Accounts payable and other liabilities	79,958	4,268			84,226
Long-term debt	61,857				61,857
Total liabilities	$ 3,180,088	$ 725,810	$ 6,986		$ 3,912,884
Shareholders equity					
Preferred stock					
Common stock	511	74	(74)	**J**	511
Additional paid-in capital	96,650	67,833	59,854	**K**	224,337

Retained earnings	197,945	73,652	(85,678)	**L**	185,919
Accumulated other comprehensive income	(538)	(257)	257	**M**	(538)
Unearned employee stock ownership plan shares		(3,761)	3,761	**N**	
Total shareholders equity	$ 294,568	$ 137,541	$ (21,880)		$ 410,229
Total liabilities and shareholders equity	$ 3,474,656	$ 863,351	$ (14,894)		$ 4,323,113

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Unaudited Pro Forma Condensed Combined Statement of Income for the

Nine Months Ended September 30, 2014

(dollars in thousands, except share data)	Homestreet Historical	Simplicity Historical	Pro Forma Merger Adjustments	Notes	Pro Forma Combined
Interest income:					
Loans	$ 71,865	$ 23,941	$ 2,638	**O**	$ 98,444
Investment securities	8,199	544	(1)	**P**	8,742
Other interest income	449	414			863
Total interest income	80,513	24,899	2,637		108,049
Interest expense:					
Deposits	7,080	3,895	(1,568)	**Q**	9,407
Federal Home Loan Bank advances	1,366	973	(266)	**R**	2,073
Securities sold under agreements to repurchase	7				7
Long-term debt	851				851
Other interest expense	42				42
Total interest expense	9,346	4,868	(1,834)		12,380
Net interest income	71,167	20,031	4,471		95,669
Provision (reversal of provision) for credit losses	(1,500)	(750)			(2,250)
Net interest income after provision for credit losses	72,667	20,781	4,471		97,919
Noninterest income:					
Net gain on mortgage loan origination and sale activities	104,946	444			105,390
Mortgage servicing income	24,284	61	36	**S**	24,381
Income from WMS Series LLC	(69)				(69)
Gain (loss) on debt extinguishment	(573)				(573)
Depositor and other retail banking fees	2,676	1,496			4,172
Insurance agency commissions	892	96			988
Gain on sale of investment securities available for sale	1,173				1,173
Other noninterest income	841	2,079	(370)	**T**	2,550
Total noninterest income	134,170	4,176	(334)		138,012

Noninterest expense:					
Salaries and related costs	118,681	8,891			127,572
General and administrative	31,593	4,402	910	**U**	36,905
Legal	1,571	244			1,815
Consulting	2,182	1,584			3,766
Federal Deposit Insurance Corporation assessments	1,874	359			2,233
Occupancy	14,042	2,196			16,238
Information services	13,597	393			13,990
Loss on equity investment		370	(370)	**T**	
Net cost of operation and sale of other real estate owned	(320)	(25)			(345)
Total noninterest expense	183,220	18,414	540		202,174
Income before income taxes	23,617	6,543	3,597		33,757
Income tax expense	6,979	2,643	1,511	**V**	11,133
Net Income	$ 16,638	$ 3,900	$ 2,086		$ 22,624
Basic income per share	$ 1.12	$ 0.55	$		$ 1.05
Diluted income per share	$ 1.11	$ 0.55	$		$ 1.04
Basic weighted average number of shares outstanding	14,797,019	7,061,302	(231,938)	**W**	21,626,383
Diluted weighted average number of shares outstanding	14,957,034	7,085,074	(255,710)	**X**	21,786,398

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Unaudited Pro Forma Condensed Combined Statement of Income for the

Twelve Months Ended December 31, 2013

(dollars in thousands, except share data)	Homestreet Historical	Simplicity Historical	Pro Forma Merger Adjustments	Notes	Pro Forma Combined
Interest income:					
Loans	$ 76,442	$ 32,923	$ 3,964	**O**	$ 113,329
Investment securities	12,391	669	(1)	**P**	13,059
Other interest income	143	402			545
Total interest income	88,976	33,994	3,963		126,933
Interest expense:					
Deposits	10,416	5,735	(2,818)	**Q**	13,333
Federal Home Loan Bank advances	1,532	1,025	(355)	**R**	2,202
Securities sold under agreements to repurchase	11				11
Long-term debt	2,546				2,546
Other interest expense	27				27
Total interest expense	14,532	6,760	(3,173)		18,119
Net interest income	74,444	27,234	7,136		108,814
Provision (reversal of provision) for credit losses	900	(1,500)			(600)
Net interest income after provision for credit losses	73,544	28,734	7,136		109,414
Noninterest income:					
Net gain on mortgage loan origination and sale activities	164,712	1,134			165,846
Mortgage servicing income	17,073	31	48	**S**	17,152
Income from WMS Series LLC	704				704
Depositor and other retail banking fees	3,172	1,775			4,947
Insurance agency commissions	864				864
Gain on sale of investment securities available for sale	1,772				1,772
Other noninterest income	2,448	2,957	(288)	**T**	5,117
Total noninterest income	190,745	5,897	(240)		196,402
Noninterest expense:					

Salaries and related costs	149,440	12,216			161,656
General and administrative	40,366	6,228	1,328	**U**	47,922
Legal	2,552	222			2,774
Consulting	5,637	1,961			7,598
Federal Deposit Insurance Corporation assessments	1,433	576			2,009
Occupancy	13,765	3,049			16,814
Information services	14,491	476			14,967
Loss on equity investment		288	(288)	**T**	
Net cost of operation and sale of other real estate owned	1,811	(192)			1,619
Total noninterest expense	229,495	24,824	1,040		255,359
Income before income taxes	34,794	9,807	5,856		50,457
Income tax expense	10,985	3,597	2,459	**V**	17,041
Net Income	$ 23,809	$ 6,210	$ 3,397		$ 33,416
Basic income per share	$ 1.65	$ 0.81	$		$ 1.53
Diluted income per share	$ 1.61	$ 0.81	$		$ 1.50
Basic weighted average number of shares outstanding	14,412,059	7,688,006	(231,938)	**W**	21,868,127
Diluted weighted average number of shares outstanding	14,798,168	7,707,459	(251,391)	**X**	22,254,236

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Notes to Unaudited Pro Forma Condensed Combined Financial Information

Note 1-Basis of Presentation

The unaudited pro forma condensed combined financial information and explanatory notes have been prepared to illustrate the effects of the merger involving HomeStreet and Simplicity under the acquisition method of accounting with HomeStreet treated as the acquiror. The unaudited pro forma condensed combined financial information is presented for illustrative purposes only and does not necessarily indicate the financial results of the combined companies had the companies actually been combined at the beginning of each period presented, nor does it necessarily indicate the results of operations in future periods or the future financial position of the combined entities. Under the acquisition method of accounting, the assets and liabilities of Simplicity, as of the effective date of the merger, will be recorded by HomeStreet at their respective fair values and the excess of the merger consideration over the fair value of Simplicity s net assets will be allocated to goodwill.

The merger, which is currently expected to be completed in the first quarter of 2015, provides for Simplicity common stockholders to receive 1.00 shares of HomeStreet common stock for each share of Simplicity common stock they hold immediately prior to the merger. This exchange ratio may be adjusted based upon HomeStreet s average closing price. The value of the per share merger consideration would be approximately $128.2 million based upon the 10-day average closing price of HomeStreet common stock on the date of merger announcement multiplied by the exchange ratio of 1.00. (See Note 4.) The pro forma allocation of purchase price reflected in the unaudited pro forma condensed combined financial information is subject to adjustment and may vary from the actual purchase price allocation that will be recorded at the time the merger is completed. Adjustments may include, but not be limited to, changes in (1) Simplicity s balance sheet through the effective time of the merger; (2) the aggregate value of merger consideration paid if the price of HomeStreet s stock varies from the assumed $17.83 per share, which represents HomeStreet s 10-day average closing stock price as of market close on September 19, 2014; (3) total merger related expenses if consummation and/or implementation costs differ from currently estimated amounts; and (4) the underlying values of assets and liabilities if market conditions differ from current assumptions. HomeStreet s 10-day average closing stock price as of market close September 19, 2014 was used, which is consistent with the 10-day average stock price for the Current Report on Form 8-K announcing the merger agreement.

The accounting policies of both HomeStreet and Simplicity are in the process of being reviewed in detail. Upon completion of such review, conforming adjustments or financial statement reclassification may be necessary.

Note 2-Estimated Merger and Integration Costs

In connection with the merger, the plan to integrate HomeStreet s and Simplicity s operations is still being developed. Over the next several months, the specific details of these plans will continue to be refined. HomeStreet and Simplicity are currently in the process of assessing the two companies personnel, benefit plans, premises, equipment, computer systems, supply chain methodologies, and service contracts to determine where they may take advantage of redundancies or where it will be beneficial or necessary to convert to one system. Certain decisions arising from these assessments may involve involuntary termination of Simplicity s personnel, vacating leased premises, changing information systems, canceling service contracts and selling or otherwise disposing of certain owned premises, furniture and equipment. HomeStreet expects to incur merger-related expenses including system conversion costs, employee retention and severance agreements, communications to customers, among others. To the extent there are costs associated with these actions, the costs will be recorded based on the nature and timing of these related integration actions. Most acquisition and restructuring costs are recognized separately from a business combination and generally will be expensed as incurred. We estimate total merger related cost to be approximately $18.5 million which has been considered in the unaudited pro forma condensed combined balance sheet as a pro forma merger adjustment. We incurred $572 thousand in merger expenses through September 30, 2014.

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Note 3-Estimated Annual Cost Savings

HomeStreet expects to realize $9.9 million in annual pre-tax cost savings following the merger integration, but there is no assurance that the anticipated cost savings will be realized. These cost savings are not reflected in the presented pro forma financial information.

Note 4-Preliminary Purchase Accounting Allocation

The unaudited pro forma condensed combined financial information reflects the issuance of approximately 7,161,370 shares of HomeStreet common stock and $545 thousand cash paid for stock options, for a total estimated purchase consideration of $128.2 million. The merger will be accounted for using the acquisition method of accounting; accordingly HomeStreet will recognize Simplicity s assets (including identifiable intangible assets) and liabilities at their respective estimated fair values as of the merger date. Accordingly, the pro forma purchase consideration and the assets acquired and the liabilities assumed based on their estimated fair values are summarized in the following table.

(dollars in thousands)		September 30, 2014
Fair value consideration paid to Simplicity shareholders:		
Cash paid (115,369 stock options, consideration based on intrinsic value at stock price of $17.83)		$ 545
Fair value of common shares issued (7,161,370 shares at approximately $17.83 price per share)		127,687
Total pro forma purchase price		$ 128,232
Fair value of assets acquired:		
Cash and cash equivalents	$ 79,101	
Investment securities	54,417	
Loans held for sale	3,116	
Loans held for investment	682,226	
Mortgage servicing rights	1,192	
Other real estate owned	306	
Federal Home Loan Bank stock	5,519	
Accrued interest receivable	2,178	
Premises and equipment	3,560	
Bank-owned life insurance	14,325	
Core deposit intangibles	7,403	
Other assets	6,961	
Total assets acquired	$ 860,304	
Fair value of liabilities assumed:		
Deposits	$ 662,462	
Federal Home Loan Bank advances	66,066	
Other liabilities	4,268	
Total liabilities assumed	$ 732,796	

Net assets acquired	$ 127,508
Preliminary pro forma goodwill	$ 724

For the purpose of this pro form analysis, the above preliminary purchase accounting allocation has been allocated based on a preliminary estimate of the fair value of assets and liabilities to be acquired. A sensitivity analysis has been performed to reflect a range of possible outcomes based on the change in stock price. The amount of goodwill generated at a stock price of $20 is $16.5 million. The amount of bargain purchase gain generated at a stock price of

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$15 is $19.8 million. According to the merger agreement, so long as the average closing price of HomeStreet s common stock is between $15 and $20 per share, Simplicity stockholders will receive one share of HomeStreet common stock for each share of Simplicity common stock they hold as of the effective time, or cash in lieu of any fractional shares. The amount of cash in lieu is not determinable as of the joint proxy statement date.

Note 5-Pro Forma Adjustments

Balance Sheet		**At September 30, 2014**
(dollars in thousands)		
A Adjustments to cash and cash equivalents		
To reflect cash used to purchase Simplicity employee stock options.	$	(545)
To reflect after-tax cash paid for merger expenses.		(12,026)
	$	(12,571)
B Adjustment to investment securities		
To reflect estimated fair value at merger date based on current market for similar assets.	$	11
C Adjustment to loans held for investment		
To reflect estimated fair value at merger date. The adjustment is 2.23% of gross loans and is based on current market rates and estimated lifetime credit losses. During HomeStreet s due diligence on Simplicity, HomeStreet reviewed loan information across collateral types and geographic distributions. HomeStreet applied discounted cash flow valuation methodology to arrive at the fair value adjustment. The discount will be accreted to income using the effective yield method over the contractual lives of the loans, which will be over a weighted-average life of approximately six years.	$	(15,587)
D Adjustment to allowance for loan and lease losses		
To remove Simplicity allowance at merger date as the credit risk is contemplated in the fair value adjustment in pro forma Adjustment C.	$	4,330
E Adjustment to mortgage servicing rights		
To reflect estimated fair value at merger date based on current market rates for similar assets.	$	342
F Adjustments to goodwill		
To remove Simplicity goodwill at merger date.	$	(3,950)
To reflect the goodwill associated with the merger.		724
	$	(3,226)
G Adjustments to other assets		
To record the estimated fair value of acquired identifiable intangible assets, calculated as 1.78% of Simplicity core deposits. The acquired core deposit intangible asset is expected to be amortized over ten years using a sum-of-the-years-digits method.	$	7,403
To reflect deferred tax asset created in the merger, which is calculated as follows:		
Adjustments to investment securities		(11)

Adjustments to loans held for investment		15,587
Adjustment to allowance for loan and lease losses		(4,330)
Adjustment to mortgage servicing rights		(342)
Adjustments to other intangible assets		(7,403)
Adjustments to deposits		5,920
Adjustments to Federal Home Loan Bank advances		1,066
Subtotal for fair value adjustments	$	10,487
Calculated deferred tax asset at HomeStreet s estimated statutory tax rate of 42%		4,404
Total adjustments to other assets	$	11,807

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Balance Sheet (continued) (dollars in thousands)		**At September 30, 2014**
H Adjustment to deposits		
To reflect estimated fair value at merger date based on current market rates for similar deposit liabilities. This estimated premium will be accreted to interest expense over the estimated lives of the deposits, which is approximately three years.	$	5,920
I Adjustment to Federal Home Loan Bank advances		
To reflect estimated fair value at merger date based on current market rates for similar borrowings. This estimated premium will be accreted to interest expense over the remaining contractual life of such borrowings, which is approximately three years.	$	1,066
J Adjustment to Common Stock		
To eliminate historical Simplicity common stock.	$	(74)
K Adjustments to Additional paid-in capital		
To eliminate historical Simplicity additional paid-in capital.	$	(67,833)
To reflect the issuance and exchange of HomeStreet common stock to Simplicity shareholders.		127,687
	$	59,854
L Adjustments to retained earnings		
To eliminate historical Simplicity retained earnings.	$	(73,652)
To adjust for after-tax merger expenses.		(12,026)
	$	(85,678)
M Adjustment to accumulated other comprehensive income		
To eliminate historical Simplicity accumulated other comprehensive income.	$	257
N Adjustment to Unearned employee stock ownership plan shares		
To eliminate historical Simplicity unearned employee stock ownership plan shares as the ESOP will be terminated immediately prior to closing the merger.	$	3,761

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Income Statement	Nine Months Ended September 30, 2014	Year Ended December 31, 2013
(amounts in thousands, except share data)		
O Adjustments to interest income on loans		
To reflect accretion of loan discount resulting from loans held for investment pro forma Adjustment C using effective yield methodology over the estimated lives of the acquired loan portfolio, which is approximately six years.	$ 2,638	$ 3,964
P Adjustments to interest income on investment securities		
To reflect amortization of premium resulting from investment securities fair value pro forma Adjustment B based on the contractual maturities of each investment.	$ (1)	$ (1)
Q Adjustments to interest expense on deposits		
To reflect amortization of deposit premium resulting from deposit fair value pro forma Adjustment H based on the weighted average life of time deposits, which is approximately three years.	$ (1,568)	$ (2,818)
R Adjustments to interest expense on Federal Home Loan Bank advances		
To reflect amortization of Federal Home Loan Bank advances premium resulting from fair value pro forma Adjustment I based on the contractual life of such borrowings, which is approximately three years.	$ (266)	$ (355)
S Adjustments to noninterest income on mortgage servicing rights		
To reflect amortization of mortgage servicing rights premium resulting from fair value pro forma Adjustment E based on a weighted average life of approximately seven years.	$ 36	$ 48
T Adjustment to noninterest income and expense		
To reclassify historical Simplicity loss on equity investment from noninterest expense to noninterest income to conform to HomeStreet accounting policies.	$ (370)	$ (288)
U Adjustments to general and administrative noninterest expense		
To reflect amortization of core deposit intangible assets based on amortization period of approximately ten years and using the sum-of-the-years-digits method of amortization.	$ 910	$ 1,328
V Adjustments to income tax expense		
To reflect the income tax effect of pro forma adjustments at HomeStreet s estimated marginal tax rate of 42%.	$ 1,511	$ 2,459
W Adjustments to weighted average number of common shares outstanding basic		
To reflect acquisition of Simplicity common shares.	(7,061,302)	(7,688,006)
To reflect issuance of Homestreet common stock as Simplicity shareholders will receive 1.00 shares of Homestreet common stock for each share of Simplicity	7,061,302	7,688,006

common stock they hold immediately prior to the merger.		
To reflect the cancellation of a portion of Simplicity Employee Stock Ownership Plan common stock as these shares of common stock are not eligible to be allocated to the respective employees as of the merger date.	(231,938)	(231,938)
Total adjustments to weighted average number of common shares outstanding basic	(231,938)	(231,938)

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Income Statement (continued) (amounts in thousands, except share data)	Nine Months Ended September 30, 2014	Year Ended December 31, 2013
X Adjustments to weighted average number of common shares outstanding dilutive		
To reflect acquisition of Simplicity common shares.	(7,085,074)	(7,707,459)
To reflect issuance of Homestreet common stock as Simplicity shareholders will receive 1.00 shares of Homestreet common stock for each share of Simplicity common stock they hold immediately prior to the merger.	7,085,074	7,707,459
To reflect the cancellation of a portion of Simplicity Employee Stock Ownership Plan common stock as these shares of common stock are not eligible to be allocated to the respective employees as of the merger date.	(231,938)	(231,938)
To reflect the cancellation of the weighted average of Simplicity stock options as HomeStreet paid cash consideration for options outstanding as of the merger date.	(23,772)	(19,453)
Total adjustments to weighted average number of common shares outstanding dilutive	(255,710)	(251,391)

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STOCK PRICE AND DIVIDEND INFORMATION

Simplicity Bancorp Stock Price and Dividend Information

Simplicity s common stock is currently traded on the Nasdaq Global Select Market under the symbol SMPL. Simplicity owns 100% of Simplicity Bank. The approximate number of holders of record of our common stock as of December 31, 2014 was 2,616. Certain shares of Simplicity are held in nominee or street name and accordingly, the number of beneficial owners of such shares is not known or included in the foregoing number.

The following table sets forth the high and low sales prices by quarter for our shares of common stock and cash dividends paid per share for the years ended June 30, 2014 and 2013 and the first two quarters of our fiscal year ending June 30, 2015.

The high and low sales prices for the quarterly periods noted below were obtained from the Nasdaq Stock Market.

	Market Price Range		
	High	Low	Dividends
Year ended June 30, 2015			
Quarter ended September 30, 2014	$ 17.75	$ 15.80	$ 0.09
Quarter ended December 31, 2014	$ 17.24	$ 15.61	$ 0.09
Year ended June 30, 2014			
Quarter ended September 30, 2013	$ 15.79	$ 14.45	$ 0.08
Quarter ended December 31, 2013	$ 16.49	$ 15.11	$ 0.08
Quarter ended March 31, 2014	$ 18.43	$ 16.07	$ 0.08
Quarter ended June 30, 2014	$ 17.90	$ 16.02	$ 0.09
Year ended June 30, 2013			
Quarter ended September 30, 2012	$ 15.74	$ 13.87	$ 0.08
Quarter ended December 31, 2012	$ 15.49	$ 13.50	$ 0.08
Quarter ended March 31, 2013	$ 15.69	$ 14.02	$ 0.08
Quarter ended June 30, 2013	$ 15.45	$ 14.02	$ 0.08

On September 26, 2014, the business day immediately preceding the entry into the merger agreement, the closing price of Simplicity s common stock as reported on Nasdaq was $16.50 per share. On December 31, 2014, the closing price was $17.15 per share.

HomeStreet, Inc., Stock Price and Dividend Information

HomeStreet s common stock began trading on the Nasdaq stock market on February 10, 2012 under the symbol HMST. Prior to that date, our common stock was not publicly traded. The approximate number of holders of record of our common stock as of December 31, 2014 was 132. Certain shares of HomeStreet are held in nominee or street name and accordingly, the number of beneficial owners of such shares is not known or included in the foregoing number. The following table sets forth, for the periods indicated, the high and low (other than our initial public offering price of $11.00 per share) reported sales prices per share of the common stock as reported on the Nasdaq Global Select Market, our principal trading market (as adjusted to reflect the 2-for-1 forward stock split effective March 6, 2012 and the 2-for-1 forward stock split effective November 5, 2012).

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	Market Price Range		
	High	Low	Dividends
For the year ended December 31, 2014			
First quarter ended March 31	$ 20.91	$ 17.02	$ 0.11
Second quarter ended June 30	$ 19.74	$ 16.51	$ 0.00
Third quarter ended September 30	$ 19.21	$ 16.90	$ 0.00
Fourth quarter ended December 31	$ 17.60	$ 15.95	$ 0.00
For the year ended December 31, 2013			
First quarter ended March 31	$ 28.73	$ 21.80	$ 0.00
Second quarter ended June 30	$ 24.69	$ 19.66	$ 0.11
Third quarter ended September 30	$ 23.17	$ 18.97	$ 0.11
Fourth quarter ended December 31	$ 21.25	$ 18.48	$ 0.11

On September 26, 2014, the business day immediately preceding the entry into the merger agreement, the closing price of HomeStreet s common stock as reported on Nasdaq was $16.62 per share.

On December 31, 2014, the closing price was $17.41 per share.

Comparative Pro Forma Per-Share Data

	Homestreet	**Simplicity**	**Homestreet Pro Forma Combined**
Basic Earnings			
Nine months ended September 30, 2014	$ 1.12	$ 0.55	$ 1.05
Year ended December 31, 2013	$ 1.65	$ 0.81	$ 1.53
Diluted Earnings			
Nine months ended September 30, 2014	$ 1.11	$ 0.55	$ 1.04
Year ended December 31, 2013	$ 1.61	$ 0.81	$ 1.50
Cash Dividends Paid			
Year ended December 31, 2014	$ 0.11	$ 0.35	$ 0.11(1)
Year ended December 31, 2013	$ 0.33	$ 0.32	$ 0.33(1)

(1) Pro forma combined cash dividends paid are based only upon HomeStreet s historical amounts.

Dividend Policy

Dividend payments by Simplicity are dependent primarily on dividends it receives from Simplicity Bank. A regulation of the OCC imposes limitations on capital distributions by savings institutions and in addition the Federal Reserve Board must be given 30 days advance notice of any proposed dividend by Simplicity Bank. In fiscal 2014, Simplicity Bank declared and paid $15.0 million in cash dividends to its parent, Simplicity. In addition, Simplicity is subject to state law limitations on the payment of dividends. Maryland law generally limits dividends to an amount equal to the excess of our capital surplus over payments that would be owed upon dissolution to stockholders whose preferential rights upon dissolution are superior to those receiving the dividend and to an amount that would not make us insolvent.

HomeStreet declared a special cash dividend of $0.11 per share in each of the quarters ended June 30, 2013, September 30, 2013 and December 31, 2013. Subsequently, on January 23, 2014 HomeStreet declared a special cash dividend of $0.11 per share payable on February 24, 2014 to shareholders of record at the close of business on February 3, 2014. HomeStreet has not adopted a formal dividend policy nor has it announced regular or recurring dividends. The amount and timing of future dividends have not been determined. The payment of dividends will depend upon a number of factors, including regulatory capital requirements, HomeStreet s and

HomeStreet Bank s liquidity, financial condition and results of operations, strategic growth plans, tax considerations, statutory and regulatory limitations and general economic conditions. HomeStreet s ability to pay dividends to shareholders is significantly dependent on HomeStreet Bank s ability to pay dividends to HomeStreet, which is limited to the extent necessary for HomeStreet Bank to meet the regulatory requirements of a well-capitalized bank or other formal or informal guidance communicated by our principal regulators. Under Washington state law, HomeStreet Bank generally may not pay a dividend if doing so would cause its net worth to be reduced below requirements, if any, imposed by the WDFI and a dividend may not be paid in an amount greater than its retained earnings without the approval of the WDFI. In addition, the Federal Reserve Board must be given 30 days advance notice of any proposed dividend by HomeStreet Bank. New capital rules to be implemented on January 1, 2015 will impose more stringent requirements on the ability of HomeStreet Bank to maintain well-capitalized status and to pay dividends to HomeStreet. See Regulation and Supervision Capital and Prompt Corrective Action Requirements New Capital Rules.

We do not expect to pay dividends in the immediate future and, for the foregoing reasons, there can be no assurance that we will pay any further special dividends in any future period.

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RISK FACTORS

Risks Relating to the Merger

Because the market price of HomeStreet common stock will fluctuate, the value of the merger consideration to be received by Simplicity stockholders, and the value of the merger consideration to be issued by HomeStreet, is uncertain and will not be known at the time of the respective shareholder meetings.

Upon completion of the merger, each share of Simplicity common stock outstanding at that time will be converted into one share of HomeStreet common stock, subject to adjustment if HomeStreet s average closing stock price during a specified measurement period prior to the effective time is more than $20 or less than $15. The market value of HomeStreet s common stock to be received as merger consideration will vary from the price of HomeStreet common stock on the date HomeStreet and Simplicity announced the merger, on the date that this joint proxy statement is mailed to shareholders, on the date of the special meetings, and on and after the effective date. Any change in the market price of HomeStreet common stock prior to the effective time will affect the market value of the merger consideration, and except as described herein, there will be no adjustment to the merger consideration for changes in the market price of either shares of HomeStreet common stock or shares of Simplicity common stock.

The adjustment that applies if HomeStreet s average closing price exceeds $20 is automatically effected, whereas the adjustment that applies if the average closing price is less than $15 is effected only if HomeStreet elects to make the adjustment (although Simplicity s board of directors may elect to terminate the merger agreement under those circumstances unless HomeStreet agrees to increase the exchange ratio). As a result, it is possible under the merger agreement that Simplicity stockholders will receive one share of common stock even if HomeStreet s average closing price is less than $15. However, it is not possible for Simplicity stockholders to receive HomeStreet common stock having a value greater than $20 per share based upon the average closing price, even though that outcome will reduce the exchange ratio to less than one for one. Stock price changes may result from a variety of factors that are beyond the control of HomeStreet and Simplicity, including, but not limited to, general market and economic conditions, changes in our respective businesses, operations and prospects and regulatory considerations. Therefore, at the respective dates of the special meetings, Simplicity stockholders will not know the precise market value of the merger consideration they will receive, and HomeStreet shareholders will not know the precise cost of the merger to HomeStreet.

The market price of HomeStreet common stock after the merger may be affected by factors different from those that currently affect the shares of Simplicity or HomeStreet.

Upon completion of the merger, holders of Simplicity common stock will become holders of HomeStreet common stock. HomeStreet s business differs in important respects from Simplicity s, and, accordingly, the results of operations of the combined company and the market price of HomeStreet common stock after the effective time may be affected by factors different from those currently affecting the independent results of operations of each of HomeStreet and Simplicity. For a discussion of the businesses of HomeStreet and Simplicity and of some important factors to consider in connection with those businesses, please see the sections below entitled Risk Factors Risks Relating to Ownership of HomeStreet Common Stock and Risk Factors Risks Relating to Ownership of Simplicity Common Stock. You also should review the documents incorporated by reference in this joint proxy statement and referred to under Where You Can Find More Information.

Regulatory approvals may not be received, may take longer than expected, or may impose conditions that are not presently anticipated or that could have an adverse effect on the combined company following the merger.

Before the merger and the bank merger may be completed, HomeStreet and Simplicity must obtain approvals from the FDIC and the WDFI and the California Department of Business Oversight (the CDBO), must obtain approval from the Federal Reserve Board or receive a waiver from the formal application process, and must file notifications with the Office of the Comptroller of the Currency (the OCC). The FDIC, WDFI, and the Federal Reserve Board have already indicated their approval or non-objection, although such approvals and waivers may be withdrawn under certain circumstances and the required notifications have been filed with the OCC. Other approvals, waivers or consents from regulators also may be required. In determining whether to grant these approvals, the regulators consider a variety of factors, including the regulatory standing of each party and the factors described under The Merger Summary of the Merger Regulatory Approvals Required for the Merger, and these regulators often have broad discretion and an obligation to consider or protect the interests of constituents other than the parties respective shareholders, including the federal Deposit Insurance Fund, consumers, community advocacy groups and the communities in which the parties do business. An adverse development in either party s regulatory standing or these factors could result in an inability to obtain approval or delay its receipt. These regulators may impose conditions on the effective time or may require changes to the terms of the merger or the bank merger. Such conditions or changes could have the effect of delaying or preventing completion of the merger or the bank merger or imposing additional costs on or limiting the revenues of the combined company following the merger and the bank merger, any of which might have an adverse effect on the combined company following the merger. See The Merger Summary of the Merger Regulatory Approvals Required for the Merger.

The Permit, if and when issued, by the California Commissioner is not an endorsement of the merger or the related transactions, nor is it a recommendation as to the merits and risks of an investment in the capital stock of either party or a recommendation of how either party s shareholders should vote.

The California Commissioner will conduct the fairness hearing in accordance with Sections 25121 and 25142 of the California Corporations Code and the regulations adopted thereunder. These laws and regulations govern certain disclosure-based requirements and financial analytics that are, or may be, applied by the California Commissioner. Although the Permit will be issued only if the California Commissioner determines that the merger and the related transactions are fair, just and equitable, such a determination does not imply a conclusion that the transaction is the best result that the Simplicity board of directors could have achieved, that the HomeStreet common stock to be issued as merger consideration represents an advisable investment, or that outcomes other than the merger and the terms and conditions described in this joint proxy statement were not feasible or achievable. Simplicity stockholders should not presume that the issuance of the Permit constitutes a recommendation as to the investment value or merits of HomeStreet s common stock, nor should any particular Simplicity stockholder presume that the California Commissioner has addressed all factors the stockholder might deem appropriate, or that she has given the relevant factors the relative weights that the stockholder might consider to be applicable in light of the stockholder s own financial, investment and tax situation.

Combining the two companies may prove more difficult, costly or time consuming than expected, and the anticipated benefits and cost savings of the merger may not be realized.

HomeStreet and Simplicity have operated, and until the effective time will continue to operate, independently. The success of the merger, including anticipated benefits and cost savings, will depend, in part, on HomeStreet s success at combining and integrating the businesses of HomeStreet and Simplicity in a manner that permits growth opportunities and without materially disrupting existing customer relations and without losing revenues or customers. Risks that may arise during the integration process could disrupt either company s ongoing businesses, including risks that may arise after the merger is completed. These risks include:

- disruption in the relationships of each entity with its clients, customers, depositors and employees;

diversion of management s attention from normal daily operation of the business;

difficulties in integrating the operations, technologies and personnel of Simplicity with those of HomeStreet;

inability to maintain the key business relationships and reputation of Simplicity;

entry into markets in which HomeStreet has limited or no prior experience in retail banking and in which competitors have stronger market positions;

responsibility for the liabilities of Simplicity;

inability to maintain internal standards, controls, procedures and policies in the combined entity; and

potential loss of key employees.

In addition, we may not achieve the anticipated benefits and cost savings forecast in financial models of the merger. If HomeStreet experiences difficulties with the integration process, the anticipated benefits of the merger may not be realized fully or at all, or may take longer to realize than expected. These integration matters could have an adverse effect on each of HomeStreet and Simplicity during this transition period on the combined company and for an undetermined period thereafter.

The fairness opinions received by HomeStreet s and Simplicity s boards of directors from the parties respective financial advisors will not reflect changes in circumstances subsequent to the respective dates of the fairness opinions.

HomeStreet s board of directors received a fairness opinion, dated September 25, 2014, from MJ Capital Partners, L.P., its financial advisor. Simplicity s board of directors has received a fairness opinion dated September 27, 2014 from Keefe, Bruyette & Woods, Inc., Simplicity s financial advisor. These opinions have not been updated as of the date of this document and will not be updated at the effective time. Changes in the operations and prospects of HomeStreet or Simplicity, general market and economic conditions and other factors that may be beyond the control of HomeStreet and Simplicity may alter the value of HomeStreet or Simplicity or the prices of shares of HomeStreet common stock or Simplicity common stock by the effective time. The fairness opinions do not speak as of the time the merger is completed or as of any other date other than the respective dates of the opinions. The full text of the fairness opinions is attached as Annex D and Annex E to this joint proxy statement. For a description of the opinions, see Background of and Reasons for the Merger Opinion of HomeStreet s Financial Advisor and Background of and Reasons for the Merger Opinion of Simplicity s Financial Advisor. For a description of the other factors considered by HomeStreet s board of directors in determining to approve the merger, see Background of and Reasons for the Merger Reasons of HomeStreet for the Merger. For a description of the other factors considered by Simplicity s board of directors in determining to approve the merger, see Background of and Reasons for the Merger Reasons of Simplicity for the Merger.

The unaudited pro forma condensed combined financial statements included in this document are preliminary and the actual financial condition and results of operations after the merger may differ materially.

The unaudited pro forma condensed combined financial statements in this document are presented for illustrative purposes only and are not necessarily indicative of what HomeStreet s actual financial condition or results of operations would have been had the merger been completed on the dates indicated. The unaudited pro forma condensed combined financial statements reflect adjustments, which are based upon assumptions and preliminary estimates, to record Simplicity s identifiable assets and liabilities at fair value and the resulting goodwill. The purchase price allocation reflected in this joint proxy statement is preliminary, and final allocation of the purchase price will be based upon the actual purchase price and the fair value of the assets and liabilities of Simplicity as of the effective time. Accordingly, the final acquisition accounting adjustments may differ materially from the pro forma adjustments reflected in this joint proxy statement. For more information, see Unaudited Pro Forma Condensed Combined Financial Statements beginning on page 25.

Certain of Simplicity s directors and executive officers have interests in the merger that may differ from the interests of Simplicity s stockholders.

Simplicity s stockholders should be aware that some of Simplicity s directors and executive officers have interests in the merger and have arrangements that differ from, or that are in addition to, those of Simplicity s stockholders generally. These interests and arrangements may create potential conflicts of interest. Simplicity s

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board of directors was aware of these interests and considered these matters, among others, when deciding whether to approve the merger agreement, and in recommending that Simplicity s stockholders approve the merger agreement and the merger.

These interests include:

- Pursuant to the merger agreement, each option to purchase shares of Simplicity common stock outstanding immediately prior to the effective time will be canceled immediately prior to closing. Option holders will be paid an amount in cash equal to the average closing price of HomeStreet s common stock (but not less than $15 nor more than $20 per share), less the exercise price of the option and net of any applicable withholding taxes, provided that any options with an exercise price in excess of the per-share cash amount to be paid at closing will instead be cancelled without payment of any consideration. Moreover, because the minimum effective cash-out price for Simplicity stock options is $15, but the merger agreement permits the parties (at the option of Simplicity s board) to decide whether to consummate the merger even if HomeStreet s average stock price is below $15, it is possible under certain circumstances that option holders could receive cash-out payments that are based upon a higher effective exercise price than the value of the merger consideration.

- The accelerated vesting of Simplicity restricted stock awards as a result of the consummation of the merger;

- Certain Simplicity executive officers who will not be employed with the combined company will receive cash payments as a result of, or in connection with, the merger under certain severance arrangements and benefit plans. These amounts are detailed in The Merger Summary of the Merger Interests of Simplicity s Directors and Executive Officers in the Merger below, and HomeStreet expects that such payments will total approximately $5.7 million.

- One of Simplicity s directors will be appointed to serve on the boards of HomeStreet and HomeStreet Bank following the effective time of the merger. Upon assuming that role, the person so selected will be entitled to participate in the compensation plans and arrangements, including equity compensation plans, applicable to HomeStreet directors generally.

- Pursuant to the merger agreement, HomeStreet will provide insurance for the directors and officers of Simplicity with respect to matters occurring at or prior to the effective time of the merger.

- In connection with the parties entry into the merger agreement, each director and executive officer of Simplicity entered into a voting agreement with HomeStreet which provides, among other things, that HomeStreet will assume Simplicity s existing obligations under indemnification agreements with those individuals. See The Merger Summary of the Merger Director and Officer Voting Agreements; Indemnification and Insurance.

For a more complete description of these interests, see The Merger Interests of Simplicity s Directors and Executive Officers in the Merger.

Termination of the merger agreement could adversely impact HomeStreet or Simplicity.

If the merger agreement is terminated, there may be various consequences. For example, HomeStreet s or Simplicity s businesses may have been impacted adversely by the failure to pursue other beneficial opportunities due to the focus of management on the merger, without realizing any of the anticipated benefits of completing the merger. Each of the parties has incurred substantial costs in connection with the merger agreement, including legal and accounting fees, investment banking fees, printing charges and filing fees.

Additionally, if the merger agreement is terminated, the market price of HomeStreet s or Simplicity s common stock could decline to the extent that the current market prices reflect a market assumption that the merger will be completed. If the merger agreement is terminated under certain circumstances, Simplicity will be required to pay HomeStreet a termination fee of $5.3 million. This may make it more difficult or expensive for another company to acquire Simplicity if the merger agreement is terminated, which may have a disproportionately adverse impact on the price of Simplicity s common stock.

HomeStreet and Simplicity will be subject to business uncertainties and contractual restrictions on their respective operations while the merger is pending.

Both HomeStreet and Simplicity will be subject to business uncertainties and contractual restrictions on their respective operations while the merger is pending. For instance, uncertainty about the effect of the merger on employees and customers may have an adverse effect on Simplicity. These uncertainties may impair Simplicity s ability to attract, retain and motivate key personnel until the merger is completed, and could cause customers and others that deal with Simplicity to seek to change their existing business relationships. Retention of certain employees by Simplicity may be challenging while the merger is pending, as certain employees may experience uncertainty about their future roles. If key employees, or a significant number of employees, depart because of issues relating to the uncertainty and difficulty of integration or a desire not to remain with Simplicity or the surviving corporation, Simplicity s or the combined company s business could be harmed. In addition, subject to certain exceptions, each of HomeStreet and Simplicity has agreed to operate its business in the ordinary course, and to comply with certain other operational restrictions, prior to closing. See The Merger Summary of the Merger Covenants and Agreements for a description of the restrictive covenants applicable to each party.

The merger agreement limits Simplicity s ability to pursue acquisition proposals and requires Simplicity to pay a termination fee of $5.3 million to HomeStreet under certain circumstances relating to acquisition proposals. These and other provisions of the merger agreement, of Simplicity s articles of incorporation and bylaws, and of Maryland law may deter potential acquirors.

The merger agreement prohibits Simplicity from soliciting, initiating, knowingly encouraging or knowingly facilitating certain third-party acquisition proposals. See The Merger Agreement Summary of the Merger Agreement Not to Solicit Other Offers. The merger agreement also provides that Simplicity must pay a termination fee of $5.3 million to HomeStreet in the event that the merger agreement is terminated under certain circumstances, including a termination resulting from Simplicity s failure to abide by certain obligations restricting Simplicity s ability to solicit acquisition proposals. See The Merger Agreement Summary of the Merger Termination Fee. These provisions may discourage a potential competing acquiror that might have an interest in acquiring all or a significant part of Simplicity from considering or proposing such an acquisition. Additionally, Simplicity s articles of incorporation authorize the board of directors, when evaluating a merger, tender offer or exchange offer, sale of substantially all assets or similar transaction to consider the social and economic effects on Simplicity s employees, customers, suppliers and communities as well as its stockholders. Maryland law also restricts certain business combinations involving Simplicity and large shareholders without the approval of the Simplicity board of directors. See Comparison of Rights of Shareholders Anti-Takeover Provisions and Other Shareholder Protections.

These provisions and agreements, and other provisions of Simplicity s articles of incorporation or bylaws or of the Maryland General Corporation Law could make it more difficult for a third-party to acquire control of Simplicity or may discourage a potential competing acquiror.

The shares of HomeStreet common stock to be received by Simplicity stockholders as merger consideration will have different rights from the shares of Simplicity common stock.

Upon completion of the merger, Simplicity stockholders will become HomeStreet shareholders and their rights as shareholders will be governed by the Washington Business Corporation Act and by HomeStreet s articles of incorporation and bylaws. The rights associated with Simplicity common stock are different from the rights associated with HomeStreet common stock. For example, the approval of a merger or other business combination involving Simplicity, as a Maryland corporation, requires the approval of a majority of the Simplicity shares outstanding and entitled to vote, whereas the approval of a business combination involving HomeStreet, as a Washington corporation, requires the approval of two-thirds of the shares outstanding as of the record date for the meeting at which such a matter is considered. Further, the Washington Business Corporation Act restricts a shareholder s ability to vote shares acquired in certain transactions not approved by the HomeStreet board of directors, whereas Simplicity s Articles have a rule that prevents stockholders from voting more than 10% of their shares. Finally, under Washington law, dissenters rights are available to holders of shares of companies whose stock trades on a national securities exchange to the same extent as those of any other company (although not available with respect to the merger because HomeStreet is the surviving corporation and its shareholders are not entitled to vote upon the merger itself, and will not experience any of the events enumerated in RCW 23B.11.030(7)), whereas under Maryland law dissenters rights generally are not available to holders of shares of companies whose stock trades on a national securities exchange. Please see Comparison of Rights of Shareholders beginning on page 310 for a further discussion of the different rights associated with HomeStreet common stock.

Holders of Simplicity and HomeStreet common stock will have a reduced ownership and voting interest after the merger and will exercise less influence over management.

Holders of Simplicity and HomeStreet common stock currently have the right to vote in the election of the board of directors and on other matters affecting Simplicity and HomeStreet, respectively. At the effective time, each Simplicity stockholder who receives shares of HomeStreet common stock will become a shareholder of HomeStreet with a percentage ownership of HomeStreet that is smaller than such shareholder s percentage ownership of Simplicity. It is currently expected that the former shareholders of Simplicity as a group will receive shares in the merger constituting approximately 33% of the outstanding shares of HomeStreet common stock immediately after the merger, assuming no adjustment is triggered under the merger agreement s price collar provisions. As a result, current shareholders of HomeStreet as a group will own approximately 67% of the outstanding shares of HomeStreet common stock immediately after the merger. Because of this, Simplicity stockholders may have less influence on the management and policies of HomeStreet than they now have on the management and policies of Simplicity, and current HomeStreet shareholders may have less influence than they now have on the management and policies of HomeStreet.

Pending litigation against Simplicity and HomeStreet could result in an injunction preventing the effective time or a judgment resulting in the payment of damages.

In connection with the merger, purported Simplicity stockholders have filed putative shareholder class action lawsuits against Simplicity, the members of the Simplicity board of directors and HomeStreet. Among other remedies, the plaintiffs seek to enjoin the merger. If the case is not resolved, this lawsuits could prevent or delay completion of the merger and result in substantial costs to HomeStreet and Simplicity, including any costs associated with the indemnification of directors and officers. These or other plaintiffs may file additional lawsuits against HomeStreet, Simplicity and/or the directors and officers of either company or both companies in connection with the merger. Litigation, particularly if it becomes protracted or complex, may form a distraction to the management of either or both of the parties, which may impair the parties operation of their respective businesses pending completion of the merger. Further, the defense or settlement of any lawsuit or claim that remains unresolved at the time the merger is completed may adversely affect HomeStreet s business, financial condition, results of operations and cash flows. See The Merger Summary of the Merger Litigation Relating to the Merger beginning on page 132.

Following the merger and related transactions, the combined company will have a large number of authorized but unissued shares.

Following the merger and related transactions, based on the number of shares of Simplicity common stock outstanding as of the record date, the combined company will have approximately 22.2 million shares outstanding, leaving approximately 137.8 million authorized but unissued shares. HomeStreet also is authorized to issue up to 10 million shares of preferred stock in classes or series, and having such rights, preferences and limitations, as the HomeStreet board of directors may deem appropriate. The combined company will be able to issue these shares without shareholder approval, unless shareholder approval is required by applicable law or stock exchange rules. Issuing additional shares may dilute the interest of existing shareholders and cause the market price of the combined company s common stock to decline.

Following the merger, a high percentage of the combined company s operations will remain in the Pacific Northwest, and the combined company s business will be heavily dependent on residential mortgage lending on the West Coast. Deteriorations in economic conditions in the real estate market generally, or in Pacific Northwest in particular, could be more harmful to the combined company compared to more diversified institutions.

As of September 30, 2014, approximately $542.2 million, or 77.7%, of Simplicity s loan portfolio was comprised of loans to businesses and individuals in the Los Angeles metropolitan area, and $638.9 million, or 91.6%, of Simplicity s loan portfolio was comprised of residential mortgage loans (including multifamily). As of September 30, 2014, approximately $1.78 billion, or 89.2% of HomeStreet s loan portfolio was comprised of loans to businesses and individuals in the Pacific Northwest, and $1.24 billion, or 62.5%, of HomeStreet s loan portfolio was comprised of residential mortgage loans (including multifamily). As a result of the merger, the combined company s loan portfolio, as of September 30, 2014 would have consisted of $1.78 billion, or 66.0%, of loans to businesses and individuals in the Pacific Northwest and $1.88 billion, or 70%, of residential mortgage loans (including multifamily).

In recent years, the Pacific Northwest has had one of the nation s highest unemployment rates, and in 2014 major employers in Washington and California have implemented substantial employee layoffs or scaled back growth plans. In recent months a number of the largest employers in Los Angeles County and in neighboring San Bernardino, Riverside and Orange Counties have announced plans to relocate all or substantial portions of their operations to other states. The merger represents the latest in a series of expansion efforts that are intended to grow HomeStreet s market presence in California, and particularly in the Los Angeles Basin. Thus, although the combined company s operations may be moderately less sensitive to geographic concentration within the Pacific Northwest, its business will remain focused on the West Coast, and it will be sensitive to economic and political factors confronting those markets. The combined company therefore will remain more sensitive, compared to more diversified institutions, to further deterioration in economic conditions or a prolonged delay in economic recovery in this region, which could lead to losses that could have a material adverse effect on the business, financial condition and results of operations of the combined company.

In addition, since 2007, the residential and commercial real estate lending markets have experienced periods of significant disruption, including increased delinquencies and foreclosures and sharply declining property values. Both Simplicity and HomeStreet derive a substantial portion of their revenues from mortgage origination and servicing activities, and although HomeStreet intends to continue its efforts to diversify its banking activities to serve more commercial customers, the combined company is expected to be heavily dependent on the mortgage sector for the foreseeable future. Despite the merger, the continued high concentration of the combined company s loan portfolio in loans secured by real estate may cause the combined company to be more sensitive, compared to more diversified institutions, to future disruptions in, and deterioration of, this industry sector, which could lead to losses which could have a material adverse effect on the business, financial condition and results of operations of the combined company.

Risks Relating to Ownership of HomeStreet Common Stock

This section discusses the known material risks associated with ownership of HomeStreet common stock, with a particular focus on risks associated with ownership of the common stock of HomeStreet as the surviving company in the merger. Simplicity stockholders should consider these risks, together with the risk factors set forth in Item 1A Risk Factors, of HomeStreet s Quarterly Report on Form 10-Q for the period ended September 30, 2014 (which information is incorporated herein by this reference) in deciding how to vote at the Simplicity special meeting. Likewise, HomeStreet shareholders should consider all such risk factors in assessing

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whether to vote to approve the issuance of HomeStreet common stock as merger consideration. First-person pronouns such as we, us and our used in this section are intended to refer to HomeStreet and HomeStreet Bank on a consolidated basis unless the context clearly indicates otherwise.

We are growing rapidly, and we may be unable to manage our growth properly.

In 2012, HomeStreet completed its initial public offering of common stock. At that time HomeStreet had been operating under regulatory orders that had been imposed during the financial crisis of 2007 through 2010 as a result of operating losses, capital impairment, asset quality deterioration and a number of related operational and management issues experienced by HomeStreet Bank at that time. In early 2010, we began recruiting a new management team, and the recapitalization brought about by our initial public offering, together with aggressive management strategies, helped us substantially improve all aspects of our operations and financial condition. As a result of a combination of these factors, our regulators removed all extraordinary restrictions on our operations by early 2013. In November 2013 we completed the simultaneous acquisitions of Fortune Bank, headquartered in Seattle, and Yakima National Bank, headquartered in Yakima, Washington. In December 2013 we completed the acquisition of two Seattle retail branches from AmericanWest Bank. The merger thus represents our third whole- bank acquisition in less than two years. We also have grown our mortgage origination operations opportunistically but quickly in both the San Francisco Bay and Los Angeles areas of California, and we have continued to grow those operations in our Pacific Northwest offices, as well. At the time we completed our IPO, and after giving effect to the $77.6 million in net proceeds from that offering, based on December 31, 2011 balances we had total assets of approximately $2.4 billion, total deposits of approximately $2.0 billion, total loans of approximately $2.7 billion, and approximately 600 employees. At September 30, 2014, we had total assets of approximately $3.5 billion, total deposits of $2.4 billion, and total loans of approximately $2.7 billion and approximately 1,600 employees. On a proforma basis giving effect to the merger, as of September 30, 2014, the combined company would have had total assets of approximately $4.3 billion, total deposits of $3.1 billion, and total loans of approximately $3.4 billion. Further, unlike the Fortune Bank and Yakima National Bank acquisitions, which together resulted in only modest geographic expansion, the merger represents a substantial geographic expansion of our commercial banking operations. We have plans to continue growing strategically, and we may also grow opportunistically from time to time. Growth can present substantial demands on management personnel, line employees, and other aspects of a bank s operations, and those challenges are particularly pronounced when growth occurs rapidly. We may face difficulties in managing that growth, and we may experience a variety of adverse consequences, including:

- loss of or damage to key customer relationships;
- distraction of management from ordinary course operations;
- loss of key employees or significant numbers of employees;
- the potential of litigation from prior employers relative to the portability of its employees;
- costs associated with opening new offices to accommodate our growth in employees;

challenges in complying with legal and regulatory requirements in new jurisdictions;

increased costs related to hiring, training and providing initial compensation to new employees, which may not be recouped if these employees do not remain with us long enough to be profitable;

inadequacies in our computer systems, accounting policies and procedures, and management personnel (some of which may be difficult to detect until other problems become manifest);

challenges integrating different systems, practices, and customer relationships;

an inability to attract and retain personnel whose experience and (in certain circumstances) business relationships promote the achievement of our strategic goals; and

increasing volatility in our operating results as we progress through these initiatives.

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These outcomes, singly or in combination, may have a material adverse effect upon our business, financial conditions and results of operations, and may cause us to achieve our goals more slowly than we expect, or to fail to achieve those goals at all.

The purchase method of accounting requires periodic testing for impairment of our acquired businesses, which may result in unexpected operating losses.

If the merger is completed, we will recognize goodwill on our balance sheet in the amount by which the value of the merger consideration exceeds the measured fair value of Simplicity s assets as of the effective time. After giving effect to our previous acquisitions of Fortune Bank and Yakima National Bank, our actual goodwill as of September 30, 2014 was $11.9 million. The amount of goodwill we recognize in connection with the merger cannot be determined prior to the effective time; however, based upon HomeStreet s one-day closing stock price on September 30, 2014, and using Simplicity s total assets as of that date, we would have recognized goodwill amounting to $0.7 million. Generally accepted accounting principles, or GAAP, requires that we evaluate goodwill (as well as all other intangible assets) for impairment on a regular basis and, if we determine that the current carrying value exceeds the fair value of those assets, we will be required to recognize impairment in an amount equal to the excess. There are a variety of factors that could cause a decrease in carrying value, including an unanticipated or excessive loss of customers, adverse changes in legal factors or the business climate, an adverse action or assessment by regulatory authorities, the loss of key personnel, a determination that we are likely to dispose of all or a significant portion of a reporting unit, failure to realize anticipated synergies from our acquisitions, a sustained decline in our stock price or market capitalization, significant negative variances between actual and expected financial results, and lowered expectations of future financial results. Adjustments to goodwill are reflected as impairment charges in a company s income statement, and thus any such impairments could have a material adverse effect upon our results of operation and financial condition. Moreover, although goodwill cannot be included in the computation of regulatory capital, and so an impairment would not affect our compliance with capital adequacy standards, a reduction in goodwill also would directly and proportionately reduce our shareholders equity.

Fluctuations in interest rates may adversely affect the value of our assets and reduce our net interest income and noninterest income, thereby adversely affecting our earnings and profitability.

Interest rates may be affected by many factors beyond our control, including general and economic conditions and the monetary and fiscal policies of various governmental and regulatory authorities. Increases in interest rates in 2014 reduced our mortgage revenues in large part by drastically reducing the market for refinancings, which has negatively impacted our noninterest income and, to a lesser extent, our net interest income, as well as demand for our residential loan products and the revenue realized on the sale of loans. Our earnings are also dependent on the difference between the interest earned on loans and investments and the interest paid on deposits and borrowings. Changes in market interest rates impact the rates earned on loans and investment securities and the rates paid on deposits and borrowings and may negatively impact our ability to attract deposits, make loans and achieve satisfactory interest rate spreads, which could adversely affect our financial condition or results of operations. In addition, changes to market interest rates may impact the level of loans, deposits and investments and the credit quality of existing loans.

In addition, our securities portfolio includes securities that are insured or guaranteed by U.S. government agencies or government-sponsored enterprises and other securities that are sensitive to interest rate fluctuations. The unrealized gains or losses in our available-for-sale portfolio are reported as a separate component of shareholders equity until realized upon sale. Future interest rate fluctuations may impact the value of these securities and as a result, shareholders equity, causing material fluctuations from quarter to quarter. Failure to hold our securities until maturity or until market conditions are favorable for a sale could adversely affect our financial condition.

A significant portion of our noninterest income is derived from originating residential mortgage loans and selling them into the secondary market. That business has benefited from a long period of historically low interest rates.

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To the extent interest rates continue to rise, particularly if they rise substantially, we may experience a reduction in mortgage financing of new home purchases and refinancing. These factors have and may in the future further negatively affect our mortgage loan origination volume and adversely affect our noninterest income.

Current economic conditions continue to pose significant challenges for us and could adversely affect our financial condition and results of operations.

Despite recent improvements in the economy and increases in interest rates, we continue to operate in an uncertain economic environment, including sluggish national and global conditions, accompanied by high unemployment and very low interest rates. Financial institutions continue to be affected by changing conditions in the real estate and financial markets, along with an arduous regulatory climate that has experienced both significant growth in the scope and number of regulations and an increasing stringency of compliance requirements as regulations passed in response to conditions and events during the economic downturn continue to be implemented. Recent improvements in the housing market may not continue, and with a return to a recessionary economy could result in financial stress on our borrowers that would adversely affect our financial condition and results of operations.

In particular, we may face risks related to market conditions that may negatively impact our business opportunities and plans, such as:

- market developments may affect consumer confidence levels and may cause adverse changes in payment patterns, resulting in increased delinquencies and default rates on loans and other credit facilities;

- regulatory scrutiny of the industry could further increase, leading to harsh regulation of our industry that could lead to a higher cost of compliance, limit our ability to pursue business opportunities and increase our exposure to the judicial system and the plaintiff s bar;

- the models we use to assess the creditworthiness of our customers may prove less reliable than we had anticipated in predicting future behaviors which may impair our ability to make good underwriting decisions;

- if our forecasts of economic conditions and other economic predictions are not accurate, we may experience further challenges in accurately estimating the ability of our borrowers to repay their loans;

- further erosion in the fiscal condition of the U.S. Treasury may lead to new taxes, limiting the ability of HomeStreet to pursue growth and return profits to shareholders; and

- future political developments and fiscal policy decisions may create uncertainty in the marketplace.

If recovery from the economic recession slows or if we experience another recessionary dip, our ability to access capital and our business, financial condition and results of operations may be adversely impacted.

The proposed restructuring of Fannie Mae and Freddie Mac and changes in existing government-sponsored and federal mortgage programs could negatively affect our business.

We originate and purchase, sell and thereafter service single family and multifamily mortgages under the Fannie Mae, and to a lesser extent the Freddie Mac, single family purchase programs and the Fannie Mae multifamily DUS® program. Since the nationwide downturn in residential mortgage lending that began in 2007, and Fannie Mae and Freddie Mac s relegation to conservatorship, Congress and various executive branch agencies have offered a wide range of proposals aimed at restructuring these agencies. The Obama administration has called for scaling back the role of the U.S. government in, and promoting the return of private capital to, the mortgage markets and the reduction of the role of Fannie Mae and Freddie Mac in the mortgage markets by, among other things, reducing conforming loan limits, increasing guarantee fees and requiring larger down payments by borrowers with the ultimate goal of winding down Fannie Mae and Freddie Mac. As recently as January 2014, the White House reaffirmed the view that housing finance reform should include ending Fannie Mae and Freddie Mac s business model.

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Notwithstanding the White House s reaffirmed position, in May 2014 FHFA released a strategic plan relating to the conservatorships of Fannie Mae and Freddie Mac which no longer involves specific steps to contract Fannie Mae s and Freddie Mac s market presence, but retains a goal focused on ways to bring additional private capital into the system in order to reduce taxpayer risk. However, Congress has recently considered several bills to reform the housing finance system, including bills that, among other things, would require Fannie Mae and Freddie Mac to be wound down after a period of time and place certain restrictions on Fannie Mae s and Freddie Mac s activities prior to being wound down. We expect that Congress will continue to hold hearings and consider legislation on the future status of Fannie Mae and Freddie Mac, including proposals that would result in Fannie Mae s liquidation or dissolution.

We cannot be certain if or when Fannie Mae and Freddie Mac ultimately will be restructured or wound down, if or when additional reform of the housing finance market will be implemented or what the future role of the U.S. government will be in the mortgage market, and, accordingly, we will not be able to determine the impact that any such reform may have on us until a definitive reform plan is adopted. However, any restructuring of Fannie Mae and Freddie Mac that restricts those agencies loan purchase programs may have a material adverse effect on our business and results of operations. Moreover, we have recorded on our balance sheet an intangible asset (mortgage servicing rights, or MSRs) relating to our right to service single and multifamily loans sold to Fannie Mae and Freddie Mac. That MSR asset was valued at $124.6 million at September 30, 2014. Changes in the policies and operations of Fannie Mae and Freddie Mac or any replacement for our successor to these entities that adversely affect our single family residential loan and DUS mortgage servicing assets may require us to record impairment charges to the value of these assets, and significant impairment charges could be material and adversely affect our business.

In addition, our ability to generate income through mortgage sales to institutional investors depends in part on programs sponsored by Fannie Mae, Freddie Mac and Ginnie Mae, which facilitate the issuance of mortgage-backed securities in the secondary market. Any discontinuation of, or significant reduction in, the operation of those programs could have a material adverse effect on our loan origination and mortgage sales. Also, any significant adverse change in the level of activity in the secondary market or the underwriting criteria of these entities could negatively impact our results of business, operations and cash flows.

We may need to increase our capital to be prepared to comply with more stringent capital requirements under Basel III beginning on January 1, 2015.

In July 2013, the U.S. federal banking regulators (including the Federal Reserve and FDIC) jointly announced the adoption of new rules relating to capital standards requirements, including requirements contemplated by Section 171 of the Dodd-Frank Act as well as certain standards initially adopted by the Basel Committee on Banking Supervision, which standards are commonly referred to as Basel III. A substantial portion of these rules will apply to both HomeStreet and HomeStreet Bank beginning in January 2015. As part of these new rules, both HomeStreet and HomeStreet Bank will be required to have a common equity Tier 1 capital ratio of 4.5%, have a Tier 1 leverage ratio of 4.0%, a Tier 1 risk-based ratio of 6.0% and a total risk-based ratio of 8.0%. In addition, both HomeStreet and HomeStreet Bank will be required to establish a conservation buffer , consisting of common equity Tier 1 capital, equal to 2.5%, which means in effect that in order to prevent certain regulatory restrictions, the common equity Tier 1 capital ratio requirement will be 7.0%, the Tier 1 risk-based ratio requirement will be 8.5% and the total risk-based ratio requirement will be 10.5%. In this regard, any institution that does not meet the conservation buffer will be subject to restrictions on certain activities including payment of dividends, stock repurchases and discretionary bonuses to executive officers. The requirement for a conservation buffer will be phased in beginning in 2016 and will take full effect on January 1, 2019.

Additional prompt corrective action rules will apply to HomeStreet Bank, including higher ratio requirements for HomeStreet Bank to be considered well-capitalized. The new rules also modify the manner for determining when certain capital elements are included in the ratio calculations. Under current capital standards, the effects of accumulated other comprehensive income items included in capital are excluded for the purposes of determining regulatory capital ratios. Under Basel III, the effects of certain accumulated other comprehensive items are not excluded; however, banking organizations that are not required to use advanced approaches, including HomeStreet and HomeStreet Bank, may make a one-time permanent election to continue to exclude these items. HomeStreet and HomeStreet Bank expect to make this election in order to avoid significant variations in the level of capital depending upon the impact of interest rate fluctuations on the fair value of HomeStreet s securities portfolio.

In addition, deductions include, for example, the requirement that mortgage servicing rights, certain deferred tax assets not dependent upon future taxable income and significant investments in non-consolidated financial entities be deducted from the new common equity Tier 1 capital to the extent that any one such category exceeds 10% of new common equity Tier 1 capital, or all such categories in the aggregate exceed 15% of new common equity Tier 1 capital. Maintaining higher capital levels may result in lower profits for HomeStreet as we will not be able to grow our lending as quickly as we might otherwise be able to do if we were to maintain lower capital levels. See Regulation and Supervision of Home Street Bank Capital and Prompt Corrective Action Requirements New Capital Regulations in Item 1 of our Form 10-K for the year ended December 31, 2013 previously filed with the SEC.

The sale of approximately 24% of our MSR portfolio in the second quarter of 2014 was consummated in part to facilitate balance sheet and capital management in preparation for Basel III. The application of more stringent capital requirements could, among other things, result in lower returns on invested capital and result in regulatory actions if we were to be unable to comply with such requirements.

We are subject to extensive regulation that has in the past restricted and could further restrict our activities in the future, including capital distributions, and impose financial requirements or limitations on the conduct of our business.

Our operations are subject to extensive regulation by federal, state and local governmental authorities, including the FDIC, the Federal Reserve and the WDFI, and are subject to various laws and judicial and administrative decisions imposing requirements and restrictions on part or all of our operations.

Because our business is highly regulated the laws, rules and regulations to which we are subject are evolving and change frequently. Changes to those laws, rules and regulations are sometimes retroactively applied. Examination findings by the regulatory agencies may result in adverse consequences to HomeStreet. We have, in the past, been subject to specific regulatory orders that constrained our business and required us to take measures that investors may have deemed undesirable, and we may again in the future be subject to such orders if banking regulators were to determine that our operations require such restrictions. Regulatory authorities have extensive discretion in their supervisory and enforcement activities, including the authority to restrict our operations, adversely reclassify our assets, determine the level of deposit premiums assessed and require us to increase our allowance for loan losses.

The Dodd-Frank Act is expected to increase our costs of operations and may have a material negative effect on us.

The Dodd-Frank Act significantly changed the laws that apply to financial institutions and revised and expanded the rulemaking, supervisory and enforcement authority of federal banking regulators. It is also expected to have a material impact on our relationships with current and future customers.

Some of these changes were effective immediately, though many others are being phased in gradually. In addition, the statute in many instances calls for regulatory rulemaking to implement its provisions while some such provisions are now being implemented, such as the Basel III Capital Standards which take effect beginning on January 1, 2015, not all of the regulations called for by Dodd-Frank have been completed or are in effect, so the precise contours of the law and its effects on us cannot yet be fully understood. The provisions of the Dodd-Frank Act and the subsequent exercise by regulators of their revised and expanded powers thereunder could materially and negatively impact the profitability of our business, the value of assets we hold or the collateral available for our loans, require changes to business practices or force us to discontinue businesses and expose us to additional costs, taxes, liabilities, enforcement actions and reputational risk. The Dodd-Frank Act imposes a requirement that private securitizers of mortgage and other asset backed securities retain, subject to certain exemptions, not less than five percent of the credit risk of the mortgages or other assets backing the securities. The regulatory agencies released the final Risk Retention rules on October 22, 2014, to be effective in one year for residential mortgage-banked securitization and in two years for all other securitization types. See Regulation and Supervision in Item 1 of our Annual Report on Form 10-K.

New federal and state legislation, case law or regulatory action may negatively impact our business.

Enacted legislation, including the Dodd-Frank Act, as well as future federal and state legislation, case law and regulations could require us to revise our operations and change certain business practices, impose additional costs, reduce our revenue and earnings and otherwise adversely impact our business, financial condition and results of operations. For instance,

- Recent legislation and court decisions with precedential value could allow judges to modify the terms of residential mortgages in bankruptcy proceedings and could hinder our ability to foreclose promptly on defaulted mortgage loans or expand assignee liability for certain violations in the mortgage loan origination process, any or all of which could adversely affect our business or result in our being held responsible for violations in the mortgage loan origination process.

- Congress and various regulatory authorities have proposed programs that would require a reduction in principal balances of underwater residential mortgages, which if implemented would tend to reduce loan servicing income and which might adversely affect the carrying values of portfolio loans.

- The Washington state supreme court has ruled that Mortgage Electronic Registration System, Inc. (MERS) does not meet the definition of beneficiary under Washington s deed of trust act, requiring additional steps to be taken to appoint a successor trustee prior to initiating a non-judicial foreclosure in that state or necessitating a judicial foreclosure process for MERS-related mortgages. Court cases in Oregon have brought similar challenges regarding MERS under Oregon state law. While the Oregon Supreme Court has ruled on the appeal of several lower-court MERS cases, enough ambiguity exists in the ruling that we and other servicers of MERS-related loans have elected to foreclose primarily through judicial procedures in Oregon, resulting in increased foreclosure costs, longer foreclosure timelines and additional delays. If state courts in Washington or other states where we do significant business issue similar decisions in the cases pending before them, our foreclosure costs and foreclosure timelines may continue to increase, which in turn, could increase our single family loan delinquencies, servicing costs, and adversely affect our cost of doing business and results of operations.

These or other judicial decisions or legislative actions, if upheld or implemented, may limit our ability to take actions that may be essential to preserve the value of the mortgage loans we service or hold for investment. Any restriction on our ability to foreclose on a loan, any requirement that we forego a portion of the amount otherwise due on a loan, or any requirement that we modify any original loan terms may require us to advance principal, interest, tax and insurance payments, which would negatively impact our business, financial condition, liquidity and results of operations. Given the relatively high percentage of our business that derives from originating residential mortgages, any such actions are likely to have a significant impact on our business, and the effects we experience will likely be disproportionately high in comparison to financial institutions whose residential mortgage lending is more attenuated.

In addition, while these legislative and regulatory proposals and court decisions generally have focused primarily, if not exclusively, on residential mortgage origination and servicing, other laws and regulations may be enacted that affect the manner in which we do business and the products and services that we provide, restrict our ability to grow through acquisition, restrict our ability to compete in our current business or expand into any new business, and impose additional fees, assessments or taxes on us or increase our regulatory oversight.

New CFPB regulations which took effect in January 2014 may negatively impact our residential mortgage loan business and compliance risk.

Our consumer business, including our mortgage, credit card, and other consumer lending and non-lending businesses, may be adversely affected by the policies enacted or regulations adopted by the Consumer Financial Protection Bureau (CFPB) which has broad rulemaking authority over consumer financial products and services. In January 2014 new federal regulations promulgated by the CFPB took effect which impact how we originate and service residential mortgage loans. The new regulations, among other things, require mortgage lenders to assess and document a borrower s ability to repay their mortgage loan. The regulations provide borrowers the ability to challenge foreclosures and sue for damages based on allegations that the lender failed to meet the standard for determining the borrower s ability to repay their loan. While the regulations include presumptions in favor of the lender based on certain loan underwriting criteria, it is uncertain how these presumptions will be construed and applied by courts in the event of litigation. The ultimate impact of these new regulations on the lender s enforcement of its loan documents in the event of a loan default, and the cost and expense of doing so, is uncertain, but may be significant. In addition, the secondary market demand for loans that do not fall within the presumptively safest category of a qualified mortgage as defined by the CFPB is uncertain.

The new regulations also require changes to certain loan servicing procedures and practices. The new servicing rules will, among other things, result in increased foreclosure costs and longer foreclosure timelines in the event of loan default, and failure to comply with the new servicing rules may result in additional litigation and compliance risk.

The CFPB recently proposed additional rules under the Home Mortgage Disclosure Act (HMDA) that are intended to improve information reported about the residential mortgage market and increase disclosure about consumer access to mortgage credit. As drafted, the proposed updates to the HMDA increase the types of dwelling-secured loans that would be subject to the disclosure requirements of the rule and expands the categories of information that financial institutions such as HomeStreet Bank would be required to report with respect to such loans and such borrowers, including potentially sensitive customer information. If implemented, these changes would increase our compliance costs due to the need for additional resources to meet the enhanced disclosure requirements, including additional personnel and training costs as well as informational systems to allow HomeStreet Bank to properly capture and report the additional mandated information. In addition, because of the anticipated volume of new data that would be required to be reported under the updated rules, HomeStreet Bank would face an increased risk of errors in the information. More importantly, because of the sensitive nature of some of the additional customer information to be included in such reports, HomeStreet Bank would face a higher potential for a security breach resulting in the disclosure of sensitive customer information in the event the HMDA reporting files were obtained by an unauthorized party. The comment period for these proposed rules closed on October 29, 2014 and the final rules have not yet been released.

While the full impact of CFPB s activities on our business is still unknown, we anticipate that the proposed rule change under the HMDA and other CFPB actions that may follow may increase our compliance costs and require changes in our business practices as a result of new regulations and requirements and could limit the products and services we are able to provide to customers. We are unable to predict whether U.S. federal, state or local authorities, or other pertinent bodies, will enact legislation, laws, rules, regulations, handbooks, guidelines or similar provisions that will affect our business or require changes in our practices in the future, and any such changes could adversely affect our cost of doing business and profitability. See Regulation and Supervision *Regulation and Supervision* in Item 1 of our Form 10-K for the year ended December 31, 2013 previously filed with the SEC.

Our accounting policies and methods are fundamental to how we report our financial condition and results of operations, and we use estimates in determining the fair value of certain of our assets, which estimates may prove

to be imprecise and result in significant changes in valuation.

A portion of our assets are carried on the balance sheet at fair value, including investment securities available for sale, mortgage servicing rights related to single family loans and single family loans held for sale. Generally, for

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assets that are reported at fair value, we use quoted market prices or internal valuation models that utilize observable market data inputs to estimate their fair value. In certain cases, observable market prices and data may not be readily available or their availability may be diminished due to market conditions. We use financial models to value certain of these assets. These models are complex and use asset-specific collateral data and market inputs for interest rates. Although we have processes and procedures in place governing internal valuation models and their testing and calibration, such assumptions are complex as we must make judgments about the effect of matters that are inherently uncertain. Different assumptions could result in significant changes in valuation, which in turn could affect earnings or result in significant changes in the dollar amount of assets reported on the balance sheet.

If we fail to maintain effective systems of internal and disclosure control, we may not be able to accurately report our financial results or prevent fraud. As a result, current and potential stockholders could lose confidence in our financial reporting, which would harm our business and the trading price of our securities.

Effective internal and disclosure controls are necessary for us to provide reliable financial reports and effectively prevent fraud and to operate successfully as a public company. If we cannot provide reliable financial reports or prevent fraud, our reputation and operating results would be harmed. As part of our ongoing monitoring of internal control we may from time to time discover deficiencies in our internal control as defined under standards adopted by the Public Company Accounting Oversight Board, or PCAOB, that require remediation. Under the PCAOB standards, a material weakness is a significant deficiency or combination of significant deficiencies that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. A significant deficiency is a control deficiency or combination of control deficiencies that adversely affects a company s ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is a more than remote likelihood that a misstatement of a company s annual or interim financial statements that is more than inconsequential will not be prevented or detected.

Following the closing of our books for the third quarter of 2014, management discovered a deficiency in our internal control over financial reporting relating to the evaluation of certain hedging instruments. Management investigated this deficiency in light of the extent to which misstatements had resulted in our prior period reports, and determined that the amount of actual misstatements was immaterial for each of the prior periods and in the aggregate. However, we also examined the deficiencies in light of the maximum possible error that could have resulted from the deficiencies, and determined that such an amount could have been material. As a result, this Quarterly Report on Form 10-Q identifies and discusses a deficiency in our disclosure controls and procedures, and notes that we intend to take certain remedial measures to improve our internal control over financial reporting. However, we cannot offer assurances that these remedial measures will completely resolve the deficiencies that we have identified, or that we do not have other undiscovered deficiencies in our disclosure controls and procedures or our internal control over financial reporting.

If we discover additional deficiencies in our internal controls, we may also identify defects in our disclosure controls and procedures that require remediation. If we discover additional deficiencies, we will take affirmative steps to improve our internal and disclosure controls. However, there is no assurance that we will be successful. Any failure to maintain effective controls or timely effect any necessary improvement of our internal and disclosure controls could harm operating results or cause us to fail to meet our reporting obligations. Ineffective internal and disclosure controls, including the deficiencies identified in this report, could also cause investors to lose confidence in our reported financial information, which would likely have a negative effect on the trading price of our securities.

HomeStreet, Inc. primarily relies on dividends from HomeStreet Bank and payment of dividends by HomeStreet Bank may be limited by applicable laws and regulations.

HomeStreet, Inc. is a separate legal entity from HomeStreet Bank, and although we may receive some dividends from HomeStreet Capital Corporation, the primary source of our funds from which we service our debt, pay

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dividends to our shareholders and otherwise satisfy our obligations is dividends from HomeStreet Bank. The availability of dividends from HomeStreet Bank is limited by various statutes and regulations, as well as by our policy of retaining a significant portion of our earnings to support HomeStreet Bank s operations. New capital rules will also impose more stringent capital requirements to maintain well capitalized status which may additionally impact HomeStreet Bank s ability to pay dividends to HomeStreet. See Management s Discussion and Analysis of Financial Condition and Results of Operations Capital Management New Capital Regulations as well as Regulation of Home Street Bank Capital and Prompt Corrective Action Requirements *New Capital Rules* in Item 1 of our Form 10-K for the year ended December 31, 2013 previously filed with the SEC. If HomeStreet Bank cannot pay dividends to us, we may be limited in our ability to service our debts, fund HomeStreet s operations and acquisition plans and pay dividends to HomeStreet s shareholders. While HomeStreet has made special dividend distributions to its public shareholders in prior quarters, HomeStreet has not adopted a dividend policy and the board of directors determined that it is in the best interests of the shareholders not to declare a dividend to be paid in the third quarter of 2014. As such, our dividends are not regular and are subject to restriction due to cash flow limitations, capital requirements, capital needs of the business or other factors.

We cannot assure you that we will remain profitable.

We have sustained significant losses in the past and our profitability has declined in recent quarters. We cannot guarantee that we will remain profitable or be able to maintain the level of profit we are currently experiencing. Many factors determine whether or not we will be profitable, and our ability to remain profitable is threatened by a myriad of issues, including:

- further increases in interest rates may limit our ability to make loans, decrease our net interest income and noninterest income, reduce demand for loans, increase the cost of deposits and otherwise negatively impact our financial situation;

- volatility in mortgage markets, which is driven by factors outside of our control such as interest rate changes, housing inventory and general economic conditions, may negatively impact our ability to originate loans and change the fair value of our existing loans and servicing rights;

- changes in regulation that may impact HomeStreet or HomeStreet Bank and may limit our ability to offer certain products and services or may increase our costs of compliance;

- increased costs from growth through acquisition could exceed the income growth anticipated from these opportunities, especially in the short term as these acquisitions are integrated into our business;

- changes in government-sponsored enterprises and their ability to insure or to buy our loans in the secondary market may result in significant changes in our ability to recognize income on sale of our loans to third parties;

- competition in the mortgage market industry may drive down the interest rates we are able to offer on our mortgages;

- changes in the cost structures and fees of government-sponsored enterprises to whom we sell many of these loans may compress our margins and reduce our net income and profitability; and

- our hedging strategies to offset risks related to interest rate changes may not prove to be successful and may result in unanticipated losses for HomeStreet.

These and other factors may limit our ability to generate revenue in excess of our costs, which in turn may result in a lower rate of profitability or even substantial losses.

Federal, state and local consumer lending laws may restrict our ability to offer and/or increase our risk of liability with respect to products and services and could increase our cost of doing business.

Federal, state and local laws have been adopted that are intended to eliminate certain lending practices considered "predatory" or "unfair and deceptive." These laws prohibit practices such as steering borrowers away

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from more affordable products, failing to disclose key features, limitations or costs related to products and services, selling unnecessary insurance to borrowers, repeatedly refinancing loans, imposing excessive fees for overdrafts and making loans without a reasonable expectation that the borrowers will be able to repay the loans irrespective of the value of the underlying property. It is our policy not to make predatory loans or engage in deceptive practices, but these laws create the potential for liability with respect to our lending, servicing, loan investment and deposit taking activities. As we offer products and services to customers in additional states, we may become subject to additional state and local laws designed to protect consumers. The additional laws and regulations increase our cost of doing business, and ultimately may prevent us from making certain loans and cause us to reduce the average percentage rate or the points and fees on loans that we do make.

The significant concentration of real estate secured loans in our portfolio has had and may continue to have a negative impact on our asset quality and profitability.

Substantially all of our loans are secured by real property. Our real estate secured lending is generally sensitive to national, regional and local economic conditions, making loss levels difficult to predict. Declines in real estate sales and prices, significant increases in interest rates, and a degeneration in prevailing economic conditions may result in higher than expected loan delinquencies, foreclosures, problem loans, OREO, net charge-offs and provisions for credit and OREO losses. Although real estate prices are stable in the markets in which we operate, if values decline in those markets, the collateral for our loans may provide less security and our ability to recover the principal, interest and costs due on defaulted loans by selling the underlying real estate will be diminished, leaving us more likely to suffer additional losses on defaulted loans. Such declines may have a greater effect on our earnings and capital than on the earnings and capital of financial institutions whose loan portfolios are more geographically diversified.

Worsening conditions in the real estate market and higher than normal delinquency and default rates on loans could cause other adverse consequences for us, including:

- the reduction of cash flows and capital resources, as we are required to make cash advances to meet contractual obligations to investors, process foreclosures, and maintain, repair and market foreclosed properties;
- declining mortgage servicing fee revenues because we recognize these revenues only upon collection;
- increasing loan servicing costs;
- declining fair value on our mortgage servicing rights; and
- declining fair values and liquidity of securities held in our investment portfolio that are collateralized by mortgage obligations.

Our allowance for loan losses may prove inadequate or we may be negatively affected by credit risk exposures. Future additions to our allowance for loan losses will reduce our earnings.

Our business depends on the creditworthiness of our customers. As with most financial institutions, we maintain an allowance for loan losses to provide for defaults and nonperformance, which represents management s best estimate of probable incurred losses inherent in the loan portfolio. Management s estimate is the result of our continuing evaluation of specific credit risks and loan loss experience, current loan portfolio quality, present economic, political and regulatory conditions, industry concentrations and other factors that may indicate future loan losses. The determination of the appropriate level of the allowance for loan losses inherently involves a high degree of subjectivity and judgment and requires us to make estimates of current credit risks and future trends, all of which may undergo material changes. Generally, our nonperforming loans and OREO reflect operating difficulties of individual borrowers and weaknesses in the economies of the markets we serve. This allowance may not be adequate to cover actual losses, and future provisions for losses could materially and adversely affect our financial condition, results of operations and cash flows.

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In addition, as a result of our acquisitions of Fortune Bank, Yakima National Bank and two branches of AmericanWest Bank in the second half of 2013, we have added the loans previously held by the acquired companies or related to the acquired branches to our books. We will add Simplicity s loans to our books upon consummation of the merger. Although we review loan quality as part of our due diligence in considering any acquisition, the addition of such loans may increase our credit risk exposure, requiring an increase in our allowance for loan losses or we may experience adverse effects to our financial condition, results of operations and cash flows stemming from losses on those additional loans.

Our real estate lending also exposes us to environmental liabilities.

In the course of our business, it is necessary to foreclose and take title to real estate, which could subject us to environmental liabilities with respect to these properties. Hazardous substances or waste, contaminants, pollutants or sources thereof may be discovered on properties during our ownership or after a sale to a third party. We could be held liable to a governmental entity or to third parties for property damage, personal injury, investigation and cleanup costs incurred by these parties in connection with environmental contamination, or may be required to investigate or clean up hazardous or toxic substances or chemical releases at such properties. The costs associated with investigation or remediation activities could be substantial and could substantially exceed the value of the real property. In addition, as the owner or former owner of a contaminated site, we may be subject to common law claims by third parties based on damages and costs resulting from environmental contamination emanating from the property. We may be unable to recover costs from any third party. These occurrences may materially reduce the value of the affected property, and we may find it difficult or impossible to use or sell the property prior to or following any environmental remediation. If we ever become subject to significant environmental liabilities, our business, financial condition and results of operations could be materially and adversely affected.

A failure in or breach of our security systems or infrastructure, or those of our third party vendors and other service providers, resulting from cyber-attacks, could disrupt our businesses, result in the disclosure or misuse of confidential or proprietary information, damage our reputation, increase our costs and cause losses.

Information security risks for financial institutions have generally increased in recent years in part because of the proliferation of new technologies, the use of the Internet and telecommunications technologies to conduct financial transactions, and the increased sophistication and activities of organized crime, hackers, terrorists, activists, and other external parties. Those parties also may attempt to fraudulently induce employees, customers, or other users of our systems to disclose confidential information in order to gain access to our data or that of our customers. Our operations rely on the secure processing, transmission and storage of confidential information in our computer systems and networks, either managed directly by us or through our data processing vendors. In addition, to access our products and services, our customers may use personal smartphones, tablet PCs, and other mobile devices that are beyond our control systems. Although we believe we have robust information security procedures and controls, we are heavily reliant on our third party vendors, and our vendors or our own technologies, systems, networks and our customers devices may become the target of cyber-attacks or information security breaches that could result in the unauthorized release, gathering, monitoring, misuse, loss or destruction of Company or our customers confidential, proprietary and other information, or otherwise disrupt HomeStreet s or its customers or other third parties business operations.

Third parties with which we do business or that facilitate our business activities, including exchanges, clearing houses, financial intermediaries or vendors that provide services or security solutions for our operations, could also be sources of operational and information security risk to us, including from breakdowns or failures of their own systems or capacity constraints. In addition, some of our primary third party service providers may be subject to enhanced regulatory scrutiny due to regulatory findings during examinations of such service provider(s) conducted by federal regulators. While we have and will subject such vendor(s) to higher scrutiny and monitor any corrective measures that the vendor(s) are or would undertake, we are not able to fully mitigate any risk which could result from a breach or other operational failure caused by this, or any other vendor s breach.

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To date we are not aware of any material losses relating to cyber-attacks or other information security breaches, but there can be no assurance that we will not suffer such attacks and losses in the future. Our risk and exposure to these matters remains heightened because of, among other things, the evolving nature of these threats, our plans to continue to implement our Internet banking and mobile banking channel, our expanding operations and the outsourcing of a significant portion of our business operations. As a result, cybersecurity and the continued development and enhancement of our controls, processes and practices designed to protect customer information, our systems, computers, software, data and networks from attack, damage or unauthorized access remain a priority for HomeStreet. As cyber threats continue to evolve, we may be required to expend significant additional resources to insure, to continue to modify or enhance our protective measures or to investigate and remediate important information security vulnerabilities.

Disruptions or failures in the physical infrastructure or operating systems that support our businesses and customers, or cyber-attacks or security breaches of the networks, systems or devices that our customers use to access our products and services could result in customer attrition, financial losses, the inability of our customers to transact business with us, violations of applicable privacy and other laws, regulatory fines, penalties or intervention, reputational damage, reimbursement or other compensation costs, and/or additional compliance costs, any of which could materially and adversely affect our results of operations or financial condition.

The network and computer systems on which we depend could fail or experience security breaches.

Our computer systems could be vulnerable to unforeseen problems. Because we conduct a part of our business over the Internet and outsource several critical functions to third parties, operations will depend on our ability, as well as the ability of third-party service providers, to protect computer systems and network infrastructure against damage from fire, power loss, telecommunications failure, physical break-ins or similar catastrophic events. Any damage or failure that causes interruptions in operations could have a material adverse effect on our business, financial condition and results of operations.

In addition, a significant barrier to online financial transactions is the secure transmission of confidential information over public networks. Our Internet banking system relies on encryption and authentication technology to provide the security and authentication necessary to effect secure transmission of confidential information. Advances in computer capabilities, new discoveries in the field of cryptography or other developments could result in a compromise or breach of the algorithms our third-party service providers use to protect customer transaction data. If any such compromise of security were to occur, it could have a material adverse effect on our business, financial condition and results of operations.

The failure to protect our customers confidential information and privacy could adversely affect our business.

We are subject to state and federal privacy regulations and confidentiality obligations that, among other things restrict the use and dissemination of, and access to, the information that we produce, store or maintain in the course of our business. We also have contractual obligations to protect certain confidential information we obtain from our existing vendors and customers. These obligations generally include protecting such confidential information in the same manner and to the same extent as we protect our own confidential information, and in some instances may impose indemnity obligations on us relating to unlawful or unauthorized disclosure of any such information. The actions we may take in order to promote compliance with these obligations vary by business segment and may change over time, but may include, among other things:

training and educating our employees and independent contractors regarding our obligations relating to confidential information;

monitoring changes in state or federal privacy and compliance requirements;

drafting and enforcing appropriate contractual provisions into any contract that raises proprietary and confidentiality issues;

maintaining secure storage facilities and protocols for tangible records;

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- physically and technologically securing access to electronic information; and

- in the event of a security breach, providing credit monitoring or other services to affected customers.

If we do not properly comply with privacy regulations and protect confidential information, we could experience adverse consequences, including regulatory sanctions, penalties or fines, increased compliance costs, litigation and damage to our reputation, which in turn could result in decreased revenues and loss of customers, all of which would have a material adverse effect on our business, financial condition and results of operations.

Our operations could be interrupted if our third-party service and technology providers experience difficulty, terminate their services or fail to comply with banking regulations.

We depend, and will continue to depend, to a significant extent, on a number of relationships with third-party service and technology providers. Specifically, we receive core systems processing, essential web hosting and other Internet systems and deposit and other processing services from third-party service providers. If these third-party service providers experience difficulties or terminate their services and we are unable to replace them with other service providers, our operations could be interrupted and our operating expenses may be materially increased. If an interruption were to continue for a significant period of time, our business financial condition and results of operations could be materially adversely affected.

We continually encounter technological change, and we may have fewer resources than many of our competitors to continue to invest in technological improvements.

The financial services industry is undergoing rapid technological changes with frequent introductions of new technology-driven products and services. The effective use of technology increases efficiency and enables financial institutions to better serve customers and to reduce costs. Our future success will depend, in part, upon our ability to address the needs of our clients by using technology to provide products and services that will satisfy client demands for convenience, as well as to create additional efficiencies in our operations. Many national vendors provide turn-key services to community banks, such as Internet banking and remote deposit capture that allow smaller banks to compete with institutions that have substantially greater resources to invest in technological improvements. We may not be able, however, to effectively implement new technology-driven products and services or be successful in marketing these products and services to our customers.

In addition, because of the demand for technology-driven products, banks are increasingly contracting with third party vendors to provide data processing and core banking functions. The use of technology-related products, services, delivery channels and processes exposes a bank to various risks, particularly transaction, strategic, reputation, cybersecurity and compliance risks. There can be no assurance that we will be able to successfully manage the risks associated with our increased dependency on technology.

We may be required to recognize impairment with respect to investment securities, including the Seattle FHLB stock we hold.

Our securities portfolio currently includes securities with unrecognized losses. We may continue to observe declines in the fair market value of these securities. We evaluate the securities portfolio for any other than temporary impairment each reporting period. In addition, as a condition of membership in the Seattle FHLB, we are required to purchase and hold a certain amount of Seattle FHLB stock. Our stock purchase requirement is based, in part, upon the outstanding principal balance of advances from the Seattle FHLB. Our Seattle FHLB stock is carried at cost and is subject to recoverability testing under applicable accounting standards. Future negative changes to the financial condition of the Seattle FHLB may require us to recognize an impairment charge with respect to such holdings. The Seattle FHLB is currently subject to a Consent Order issued by its primary regulator, the Federal Housing Finance Agency.

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A change in federal monetary policy could adversely impact our mortgage banking revenues.

The Federal Reserve is responsible for regulating the supply of money in the United States, and as a result its monetary policies strongly influence our costs of funds for lending and investing as well as the rate of return we are able to earn on those loans and investments, both of which impact our net interest income and net interest margin. The Federal Reserve Board s interest rate policies can also materially affect the value of financial instruments we hold, including debt securities and mortgage servicing rights, or MSRs. These monetary policies can also negatively impact our borrowers, which in turn may increase the risk that they will be unable to pay their loans according to the terms or be unable to pay their loans at all. We have no control over the monetary policies of the Federal Reserve Board and cannot predict when changes are expected or what the magnitude of such changes may be.

As a result of the Federal Reserve Board s concerns regarding continued slow economic growth, the Federal Reserve Board, in 2008 implemented its standing monetary policy known as quantitative easing, a program involving the purchase of mortgage backed securities and United States Treasury securities, the volume of which has been aligned with specific economic targets or measures intended to bolster the U.S. economy. As the Federal Reserve Board, through the Federal Open Market Committee (the Committee), monitors economic performance, the volume of the quantitative easing program has been incrementally reduced. Consistent with the Committee s prior statement stated that if incoming information broadly supports the Committee s expectation of ongoing improvement in labor market conditions and inflation moving back toward its longer-run objective, the Committee would likely reduce the pace of asset purchases in further measured steps at future meetings, at the end of October, the Committee announced that it judged there had been a substantial improvement in the outlook for the labor market since the inception of its current asset purchase program and therefore it would reduce its asset purchase program. Moreover, at that time the Committee announced that it continued to see sufficient underlying strength in the broader economy to support ongoing progress toward maximum employment in a context of price stability and accordingly, the Committee decided to conclude its asset purchase program at that time. However, the Committee has maintained its policy of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities and of rolling over mature Treasury securities at auction, which the Committee announced was intended to keep the Committee s holdings of longer-term securities at sizable levels to help maintain accommodative financial conditions. Asset purchases by the Federal Reserve Board are not on a preset course, and the Committee s decisions about their pace will remain contingent on the Committee s outlook for the labor market and inflation as well as its assessment of the likely efficacy and costs of such purchases.

Because a substantial portion of our revenues and our net income historically have been, and in the foreseeable future are expected to be, derived from gain on the origination and sale of mortgage loans and on the continuing servicing of those loans, the Federal Reserve Board s monetary policies may have had the effect of supporting higher revenues than might otherwise be available. Contrarily, the present reduction in or further reduction in or termination of this policy, absent a significant rebound in employment and real wages, would likely reduce mortgage originations throughout the United States, including ours. Continued reduction or termination of the quantitative easing program may likely further raise interest rates, which could reduce our mortgage origination revenues and in turn have a material adverse impact upon our business.

A substantial portion of our revenue is derived from residential mortgage lending which is a market sector that experiences significant volatility.

A substantial portion of our consolidated net revenues (net interest income plus noninterest income) is derived from originating and selling residential mortgages. Residential mortgage lending in general has experienced substantial volatility in recent periods. An increase in interest rates in the second quarter of 2013 resulted in a significant adverse impact on our business and financial results due primarily to a related decrease in volume of loan originations, especially refinancings. Any future additional increase in interest rates may further materially and adversely affect our future loan origination volume, margins, and the value of the collateral securing our outstanding loans, may increase rates of borrower default, and may otherwise adversely affect our business.

Additionally, in recent periods we have experienced very low levels of homes available for sale in many of the markets in which we operate. The lack of housing inventory has had a downward impact on the volume of mortgage loans that we originate. Further, it has resulted in elevated costs, as a significant amount of loan processing and underwriting that we perform are to qualifying borrowers for mortgage loan transactions that never materialize. The lack of inventory of homes for sale may continue to have an adverse impact on mortgage loan volumes into the foreseeable future.

We may incur losses due to changes in prepayment rates.

Our mortgage servicing rights carry interest rate risk because the total amount of servicing fees earned, as well as changes in fair-market value, fluctuate based on expected loan prepayments (affecting the expected average life of a portfolio of residential mortgage servicing rights). The rate of prepayment of residential mortgage loans may be influenced by changing national and regional economic trends, such as recessions or depressed real estate markets, as well as the difference between interest rates on existing residential mortgage loans relative to prevailing residential mortgage rates. Changes in prepayment rates are therefore difficult for us to predict. An increase in the general level of interest rates may adversely affect the ability of some borrowers to pay the interest and principal of their obligations. During periods of declining interest rates, many residential borrowers refinance their mortgage loans. The loan administration fee income (related to the residential mortgage loan servicing rights corresponding to a mortgage loan) decreases as mortgage loans are prepaid. Consequently, the fair value of portfolios of residential mortgage loan servicing rights tend to decrease during periods of declining interest rates, because greater prepayments can be expected and, as a result, the amount of loan administration income received also decreases.

We may incur significant losses as a result of ineffective hedging of interest rate risk related to our loans sold with a reservation of servicing rights.

Both the value our single family mortgage servicing rights, or MSRs, and the value of our single family loans held for sale changes with fluctuations in interest rates, among other things, reflecting the changing expectations of mortgage prepayment activity. To mitigate potential losses of fair value of single family loans held for sale and MSRs related to changes in interest rates, we actively hedge this risk with financial derivative instruments. Hedging is a complex process, requiring sophisticated models, experienced and skilled personnel and continual monitoring. Changes in the value of our hedging instruments may not correlate with changes in the value of our single family loans held for sale and MSRs, and we could incur a net valuation loss as a result of our hedging activities. As we continue to expand our single family mortgage operations through the addition of a significant number of single family mortgage origination personnel and by acquisitions such as our recent acquisitions of Fortune Bank and Yakima National Bank, as well as the acquisition of Simplicity contemplated by the merger, the volume of our single family loans held for sale and MSRs has increased. The increase in volume in turn increases our exposure to the risks associated with the impact of interest rate fluctuations on single family loans held for sale and MSRs.

Changes in fee structures by third party loan purchasers and mortgage insurers may decrease our loan production volume and the margin we can recognize on conforming home loans, and may adversely impact our results of operations.

Certain third party loan purchasers revised their fee structures in the third quarter of 2013 and increased the costs of doing business with them. For example, certain purchasers of conforming loans, including Fannie Mae and Freddie Mac, raised costs of guarantee fees and other required fees and payments. These changes increased the cost of mortgages to consumers and the cost of selling conforming loans to third party loan purchasers which in turn decreased our margin and negatively impacted our profitability. Additionally, the FHA raised costs for premiums and extended the period for which private mortgage insurance is required on a loan purchased by them. Additional changes in the future from third party loan purchasers may have a negative impact on our ability to originate loans to be sold because of the increased costs of such loans and may decrease our

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profitability with respect to loans held for sale. In addition, any significant adverse change in the level of activity in the secondary market or the underwriting criteria of these third party loan purchasers could negatively impact our results of business, operations and cash flows.

If we breach any of the representations or warranties we make to a purchaser or securitizer of our mortgage loans or MSRs, we may be liable to the purchaser or securitizer for certain costs and damages.

When we sell or securitize mortgage loans in the ordinary course of business, we are required to make certain representations and warranties to the purchaser about the mortgage loans and the manner in which they were originated. Our agreements require us to repurchase mortgage loans if we have breached any of these representations or warranties, in which case we may be required to repurchase such loan and record a loss upon repurchase and/or bear any subsequent loss on the loan. We may not have any remedies available to us against a third party for such losses, or the remedies available to us may not be as broad as the remedies available to the purchaser of the mortgage loan against us. In addition, if there are remedies against a third party available to us, we face further risk that such third party may not have the financial capacity to perform remedies that otherwise may be available to us. Therefore, if a purchaser enforces remedies against us, we may not be able to recover our losses from a third party and may be required to bear the full amount of the related loss. In addition, in connection with the sale of a significant amount of our MSRs to SunTrust Mortgage, Inc., we agreed to indemnify SunTrust Mortgage, Inc. for prepayment of a certain amount of those loans. In the event the holders of such loans prepay the loans, we may be required to reimburse SunTrust Mortgage, Inc. for a certain portion of the anticipated MSR value of those loans. If repurchase and indemnity demands increase, our liquidity, results of operations and financial condition will be adversely affected.

If we breach any representations or warranties or fail to follow guidelines when originating a FHA/HUD-insured loan or a VA-guaranteed loan, we may lose the insurance or guarantee on the loan and suffer losses and/or pay penalties.

We originate and purchase, sell and thereafter service single family loans that are insured by FHA/HUD or guaranteed by the VA. We certify to the FHA/HUD and the VA that the loans meet their requirements and guidelines. The FHA/HUD and VA audit loans that are insured or guaranteed under their programs, including audits of our processes and procedures as well as individual loan documentation. Violations of guidelines can result in monetary penalties or require us to provide indemnifications against loss or loans declared ineligible for their programs. In the past, monetary penalties and losses from indemnifications have not created material losses to the Bank. As a result of the housing crisis, the FHA/HUD has stepped up enforcement initiatives. In addition to regular FHA/HUD audits, HUD s Inspector General has become active in enforcing FHA regulations with respect to individual loans and has partnered with the Department of Justice (DOJ) in filing lawsuits against lenders for systemic violations. The penalties resulting from such lawsuits can be much more severe, since systemic violations can be applied to groups of loans and penalties may be subject to treble damages. The DOJ has used the Federal False Claims Act and other federal laws and regulations in prosecuting these lawsuits. Because of our significant origination of FHA/HUD insured and VA guaranteed loans, if the DOJ were to find potential violations by the Bank, we could be subject to material monetary penalties and/or losses, and may even be subject to lawsuits alleging systemic violations which could result in treble damages.

We may face risk of loss if we purchase loans from a seller that fails to satisfy its indemnification obligations.

We generally receive representations and warranties from the originators and sellers from whom we purchase loans and servicing rights such that if a loan defaults and there has been a breach of such representations and warranties, we may be able to pursue a remedy against the seller of the loan for the unpaid principal and interest on the defaulted loan. However, if the originator and/or seller breach such representations and warranties and does not have the financial capacity to pay the related damages, we may be subject to the risk of loss for such loan as the originator or seller may not be able to pay such damages or repurchase loans when called upon by us to do so. Currently, we only purchase loans from WMS LLC, an affiliated business arrangement with certain Windermere real estate brokerage franchise owners.

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Some provisions of our articles of incorporation and bylaws and certain provisions of Washington law may deter takeover attempts, which may limit the opportunity of our shareholders to sell their shares at a favorable price.

Some provisions of our articles of incorporation and bylaws may have the effect of deterring or delaying attempts by our shareholders to remove or replace management, to commence proxy contests, or to effect changes in control. These provisions include:

- a classified board of directors so that only approximately one-third of our board of directors is elected each year;
- no cumulative voting in the election of directors;
- procedures for advance notification of shareholder nominations and proposals;
- the ability of our board of directors to amend our bylaws without shareholder approval; and
- the ability of our board of directors to issue shares of preferred stock without shareholder approval upon the terms and conditions and with the rights, privileges and preferences as the board of directors may determine.

In addition, Washington restricts some transactions between a corporation and certain significant shareholders. These provisions, alone or together, could have the effect of deterring or delaying changes in incumbent management, proxy contests or changes in control.

Risks Relating to Simplicity Bancorp

A return of recessionary economic conditions in our primary market of California, could seriously impair the value of our loan portfolio and adversely affect our results of operations.

All our real estate loans are secured by properties located in California. Decreases in California real estate values can adversely affect the value of properties collateralizing our loans and increase the risk that we would incur losses if borrowers default on their loans.

As of September 30, 2014, 91.6% or $638.9 million of our loan portfolio consisted of loans secured by real estate properties located in California. Although the impact on the Bank of the negative credit cycle has stabilized and credit quality indicators have improved, weak economic conditions and ongoing strains in the financial and housing markets in California have and may continue to reduce our rate of growth, affect our customers ability to repay loans and adversely impact our financial condition and earnings. In the event that we are required to foreclose on a property securing a mortgage loan or pursue other remedies in order to protect our investment, there can be no assurance that we will recover funds in an amount equal to any remaining loan balance as a result of prevailing general economic or local conditions, real estate values and other factors associated with the ownership of real property. As a result, the market value of the real estate or other collateral underlying the loans may not, at any given time, be sufficient to satisfy the outstanding principal amount of the loans. Consequently, we would sustain significant loan losses and potentially incur a higher provision for loan loss expense. Adverse changes in the economy may also have a negative effect on the ability of borrowers to make timely repayments of their loans, which could have an adverse impact on earnings.

Our loan portfolio possesses increased risk due to our level of multi-family residential real estate and commercial real estate loans which could increase our level of provision for loan losses.

Our outstanding multi-family residential real estate and commercial real estate loans accounted for 51.0%, or $355.5 million, of our total loan portfolio as September 30, 2014. Generally, management considers these types of loans to involve a higher degree of risk compared to permanent first mortgage loans on one-to-four family, owner occupied residential properties. Multi-family residential real estate and commercial real estate loans are underwritten on the income producing potential of the property or the successful operation of the borrowers or tenants businesses, financial strength of the borrower and any guarantors. Repayment is dependent on income being generated in amounts sufficient to cover operating expenses and debt service.

Management plans to continue focusing its efforts to diversify the loan portfolio to ensure profitable growth opportunities in all major loan categories including higher yielding products such as multi-family residential loans and commercial real estate loans. Many of our commercial and multi-family residential real estate loans are not fully amortizing and contain large balloon payments upon maturity. These balloon payments may require the borrower to either sell or refinance the underlying property in order to make the balloon payment. Further, commercial and multi-family residential real estate loans generally have relatively large balances to single borrowers or related groups of borrowers. Accordingly, if we make any errors in judgment in the collectability of our commercial and multi-family residential real estate loans or the valuation of underlying collateral, any resulting charge-offs may be larger on a per loan basis than those incurred with our residential or consumer loan portfolios. As a result of the above factors, management may determine it necessary to increase the level of provision for loan losses. Increased provisions for loan losses could negatively affect our results of operations.

Our loan portfolio possesses increased risk due to its amount of nonconforming loans.

A significant portion of our one-to-four family residential loans are nonconforming to secondary market requirements, and are therefore, not saleable to Freddie Mac or Fannie Mae. At September 30, 2014, about 17.0% of our one-to-four family residential loan portfolio consisted of loans that were considered nonconforming due to loan size. Included in non-accrual loans at September 30, 2014 were three loans totaling $1.4 million that were nonconforming due to each loan s principal amount.

As of September 30, 2014, we held in portfolio one-to-four family interest-only mortgage loans totaling $10.8 million or 1.6% of gross loans as compared to $11.6 million or 1.6% of gross loans at June 30, 2014. The interest rates on these loans are generally initially fixed for three, five, seven or ten year terms and then adjust in accordance with the terms of the loan to require payment of both principal and interest in order to amortize the loan for the remainder of the term. At September 30, 2014, all of these loans convert to fully-amortizing status within the next five years. From February 2004 until February 2007, we originated or purchased interest-only loans which were underwritten at the fully indexed and fully amortized rate. During this period, we also purchased loans made to borrowers who provided limited or no documentation of income, known as stated income loans. A stated income loan is a loan where the borrower s income source is not subject to verification through the application process, but the reasonableness of the stated income is verified through review of other sources, such as compensation surveys. At September 30, 2014, we had $23.9 million in stated income loans, or 3.4% of gross loans, as compared to $24.9 million, or 3.5% of gross loans at June 30, 2014. Included in our stated income loans at September 30, 2014 were $3.2 million in interest-only loans. Included in non-accrual loans at September 30, 2014 and June 30, 2014 was $2.4 million and $2.8 million in one-to-four family residential loans that are interest-only or stated income loans. We have not purchased any interest-only or stated income one- to-four family loans since 2007.

Nonconforming one-to-four family residential loans are generally considered to have an increased risk of delinquency and foreclosure than conforming loans and we cannot sell such loans to the government sponsored enterprises which may result in higher levels of provision for loan losses. All nonconforming loans are either performing or less than 60 days delinquent at September 30, 2014 as compared to 99.8% at June 30, 2014. There can be no assurance that our nonconforming loan portfolio would not be adversely affected should regional and national economic conditions deteriorate further. In addition, there can be no assurance that we will recover funds in an amount equal to any remaining loan balance. Consequently, we could sustain loan losses and potentially incur a higher provision for loan losses.

High loan-to-value ratios on a portion of our residential mortgage loan portfolio expose us to greater risk of loss.

Many of our residential mortgage loans are secured by liens on mortgage properties in which the borrowers have little or no equity because of the decline in home values in our market areas. Residential loans with high

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loan-to-value ratios will be more sensitive to declining property values than those with lower combined loan-to-value ratios and, therefore, may experience a higher incidence of default and severity of losses. In addition, if the borrowers sell their homes, such borrowers may be unable to repay their loans in full from the sale. As a result, these loans may experience higher rates of delinquencies, defaults and losses.

***If the allowance for loan losses is not sufficient to cover actual losses, our results of operations may be negatively affected*.**

In the event that loan customers do not repay their loans according to their terms and the collateral security for the payments of these loans is insufficient to pay any remaining loan balance, we may experience significant loan losses. Such credit risk is inherent in the lending business, and failure to adequately assess such credit risk could have a material adverse affect on our financial condition and results of operations. Management makes various assumptions and judgments about the collectability of the loan portfolio, including the creditworthiness of the borrowers and the value of the real estate and other assets serving as collateral for the repayment of many of the loans. In determining the amount of the allowance for loan losses, management reviews the loan portfolio and historical loss and delinquency experience, as well as overall economic conditions and peer data. If management s assumptions are incorrect, the allowance for loan losses may be insufficient to cover probable incurred losses in the loan portfolio, resulting in additions to the allowance. The allowance for loan losses is also periodically reviewed by our regulators, who may disagree with the allowance and require us to increase such amount. Additions to the allowance for loans losses would be made through increased provisions for loan losses and could negatively affect our results of operations. At September 30, 2014, our allowance for loan losses was $4.3 million, or 0.6% of total loans and 60.9% of non-performing loans as compared to $4.6 million, or 0.6% of total loans and 59.9% of non-performing loans at June 30, 2014.

If our non-performing assets increase, our earnings may be reduced.

Our non-performing assets adversely affect our net income in various ways. We do not record interest income on non-accrual loans or real estate owned. We must establish an allowance for loan losses that reserves for losses inherent in the loan portfolio that are both probable and reasonably estimable through current period provisions for loan losses. From time to time, we also write down the value of properties in our real estate owned portfolio to reflect changing market values. Additionally, there are legal fees associated with the resolution of problem assets as well as carrying costs such as taxes, insurance and maintenance related to our real estate owned assets. Further, the resolution of non-performing assets requires the active involvement of management, which can distract them from our overall supervision of operations and other income-producing activities. Finally, if our estimate of the allowance for loan losses is inadequate, we will have to increase the allowance for loan losses accordingly.

If property taken into real estate owned is not properly valued or sufficiently reserved to cover actual losses, or if we are required to increase our valuation reserves, our earnings could be reduced.

We obtain updated valuations in the form of appraisals when a loan has been foreclosed and the property is transferred to real estate owned, and at certain other times during the asset s holding period. Our net book value in the loan at the time of foreclosure and thereafter is compared to the lower of adjusted cost basis or updated market value of the foreclosed property less estimated selling costs (fair value). A charge-off is recorded for any excess in the asset s net book value over its fair value when the loan is transferred to real estate owned. If our valuation determination is inaccurate, the fair value of our investments in real estate may not be sufficient to recover our net book value in such assets, resulting in the need for additional charge-offs. Additional charge-offs to our investments in real estate could have an adverse effect on our financial condition and results of operations.

In addition, bank regulators periodically review our real estate owned and may require us to recognize further charge-offs. Any increase in our charge-offs, as required by such regulators, may have an adverse effect on our financial condition and results of operations.

Our litigation related costs might increase.

We are subject to a variety of legal proceedings that have arisen in the ordinary course of business. There can be no assurance that our loan workout and other activities will not result in increased litigation expense that may have a material adverse effect on our profitability.

We depend on our management team to implement our business strategy and execute successful operations and we could be harmed by the loss of their services.

We are dependent upon the services of our senior management team. Our strategy and operations are directed by the senior management team. The only senior executive with an employment agreement is our President and Chief Executive Officer (CEO). Any loss of the services of the President and CEO or other members of the management team could impact our ability to implement our business strategy, and have a material adverse effect on our results of operations and our ability to compete in our markets.

Strong competition in our primary market area may reduce our ability to attract and retain deposits and also may increase our cost of funds.

We operate in a very competitive market for the attraction of deposits, the primary source of our funding. Historically, our most direct competition for deposits has come from credit unions, community banks, large commercial banks and thrift institutions within our primary market areas. In recent years competition has also come from institutions that largely deliver their services over the internet. Such competitors have the competitive advantage of lower infrastructure costs. Particularly in times of extremely low or extremely high interest rates, we have faced significant competition for investors funds from short-term money market securities and other corporate and government securities. During periods of regularly increasing interest rates, competition for interest bearing deposits increases as customers, particularly certificate of deposit customers, tend to move their accounts between competing businesses to obtain the highest rates in the market. As a result, Simplicity Bank may incur a higher cost of funds in an effort to attract and retain customer deposits. We strive to grow our lower cost core deposits, such as non-interest bearing checking accounts, in order to reduce our cost of funds.

Strong competition in our primary market area may reduce our ability to originate loans and also decrease our yield on loans.

We are located in a competitive market that affects our ability to obtain loans through origination as well as originating them at rates that provide an attractive yield. Competition for loans comes principally from mortgage bankers, commercial banks, other thrift institutions and credit unions. Internet based lenders have also become a greater competitive factor in recent years. Such competition for the origination of loans may limit future growth and earnings prospects.

Changes in interest rates could adversely affect our results of operations and financial condition.

Our results of operations and financial condition are significantly affected by changes in interest rates. Our results of operations depend substantially on our net interest income, which is the difference between the interest income we earn on our interest-earning assets, such as loans and securities, and the interest expense we pay on our interest-bearing liabilities, such as deposits and borrowings. Because our interest-bearing liabilities generally reprice or mature more quickly than our interest-earning assets, an increase in interest rates generally would result in a decrease in net interest income.

Changes in interest rates may also affect the average life of loans and mortgage-related securities. Decreases in interest rates can result in increased prepayments of loans and mortgage-related securities, as borrowers refinance to reduce their borrowing costs. Under these circumstances, we are subject to reinvestment risk to the extent that we are unable to reinvest the cash received from such prepayments at rates that are comparable to the rates on existing loans and securities. Also, increases in interest rates may decrease loan demand and make it more difficult for borrowers to repay adjustable rate loans. Additionally, increases in interest rates may extend the life of fixed-rate assets, which would restrict our ability to reinvest in higher yielding alternatives, and may result in customers withdrawing certificates of deposit early so long as the early withdrawal penalty is less than the additional interest they could receive on an alternative investment.

United States financial markets and economic conditions, particularly in our geographic market area, may adversely affect our business and financial results.

Since 2007, negative developments in the housing market, including decreased home prices and increased delinquencies and foreclosures by comparison with pre-recession levels, have negatively impacted the credit performance of mortgage loans and have resulted in significant write-downs of assets by many financial institutions, including the Bank. In addition, the values of real estate collateral supporting many loans declined and may continue to decline. National economic data, particularly from the labor market, has shown signs of improvements. The national unemployment rate declined from 7.5% in June 2013 to 5.9% in September 2014. There was a general downward shift in the Federal Open Market Committee s expectation for the unemployment rate over the next few years as evidenced by their forecasts of 5.6% to 5.9% in 2015 and 5.2% to 5.6% in 2016. Economic activity continued to expand at a moderate pace. Housing prices have also moved higher over the past year and consumer sentiment continues to improve. The recovery for California still lags behind the rest of the nation as evidenced by the higher unemployment rate of 7.3% as of September 2014. While the impact on the negative credit cycle of many financial institutions is beginning to stabilize, however, there are risks associated with the sustainability of the improving market dynamics as a result of lingering effects of tax increases that could restrain consumption and rising interest rates that might slow the economy. Continued declines in both the volume of real estate sales and the related sales price coupled with the weak economic environment and the associated high unemployment may result in higher than expected loan delinquencies or problem assets, a decline in demand for our products and services, or lack of growth or a decrease in deposits. These potential negative events may cause us to incur losses, adversely affect our capital, liquidity, financial condition and business operations. These declines may have a greater affect on our earnings and capital than on the earnings and capital of financial institutions whose loan portfolios are more diversified. Moreover, any declines in the stock market in general, or stock values of financial institutions and their holding companies specifically, could adversely affect our stock performance.

We operate in a highly regulated environment and may be adversely affected by changes in laws and regulations.

We are subject to extensive regulation, supervision and examination by the OCC, the Federal Reserve Board and the FDIC. Such regulators govern the activities in which we may engage, primarily for the protection of depositors and the Deposit Insurance Fund. These regulatory authorities have extensive discretion in connection with their supervisory and enforcement activities, including the ability to impose restrictions on a bank s operations, reclassify assets, determine the adequacy of a bank s allowance for loan losses and determine the level of deposit insurance premiums assessed. Financial reform legislation known as the Dodd-Frank Act changed the bank regulatory framework, created an independent consumer protection bureau that assumed the consumer protection responsibilities of the various federal banking agencies and established more stringent capital standards for banks and bank holding companies. The legislation has also resulted in new regulations affecting the lending, funding, trading and investment activities of banks and bank holding companies. Any further changes in such regulation and oversight, whether in the form of regulatory policy, new regulations or legislation or additional deposit insurance premiums could have a material impact on our operations. Because our business is highly regulated, the laws and applicable regulations are subject to frequent change. Any new laws, rules and regulations could make compliance more difficult or expensive or otherwise adversely affect our business, financial condition or prospects.

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Financial reform legislation has, among other things, eliminated the Office of Thrift Supervision, tightened capital standards and created a new Consumer Financial Protection Bureau, and will result in new laws and regulations that are expected to increase our costs of operations.

The Dodd-Frank Act requires various federal agencies to adopt a broad range of new implementing rules and regulations, and to prepare numerous studies and reports for Congress. The federal agencies are given significant discretion in drafting the implementing rules and regulations, and consequently many of the details and much of the impact of the Dodd-Frank Act may not be known for many months or years.

Among other things, as a result of the Dodd-Frank Act:

- the OCC became the primary federal regulator for federal savings banks such as Simplicity Bank (replacing the Office of Thrift Supervision), and the Federal Reserve Board now supervises and regulates all savings and loan holding companies that were formerly regulated by the Office of Thrift Supervision, including Simplicity;

- the federal prohibition on paying interest on demand deposits has been eliminated, thus allowing businesses to have interest-bearing checking accounts. This change has increased our interest expense;

- the Federal Reserve Board has set minimum capital levels for depository institution holding companies that are as stringent as those required for their insured depository subsidiaries, and the components of Tier 1 capital are required to be restricted to capital instruments that are currently considered to be Tier 1 capital for insured depository institutions. The new rule for savings and loan holding companies has set January 1, 2015 as the date the new capital requirements will begin to apply;

- the federal banking regulators are required to implement new leverage and capital requirements that take into account off-balance sheet activities and other risks, including risks relating to securitized products and derivatives;

- a new Consumer Financial Protection Bureau has been established, which has broad powers to supervise and enforce consumer protection laws. The Consumer Financial Protection Bureau has broad rule-making authority for a wide range of consumer protection laws that apply to all banks and savings institutions, including the authority to prohibit unfair, deceptive or abusive acts and practices. The Consumer Financial Protection Bureau has examination and enforcement authority over all banks and savings institutions with more than $10 billion in assets. Banks and savings institutions with $10 billion or less in assets, like Simplicity Bank, will be examined by their applicable bank regulators; and

- federal preemption rules that have been applicable for national banks and federal savings banks have been weakened, and state attorneys general have the ability to enforce federal consumer protection laws.

In addition to the risks noted above, our operating and compliance costs, and possibly our interest expense, may increase as a result of the Dodd-Frank Act and the implementing rules and regulations. The need to comply with additional rules and regulations, as well as state laws and regulations to which we were not previously subject, will also divert management s time from managing our operations. Higher capital levels would reduce our ability to grow and increase our interest-earning assets which would adversely affect our return on stockholders equity.

We will become subject to more stringent capital requirements, which may adversely impact our return on equity, require us to raise additional capital, or constrain us from paying dividends or repurchasing shares.

In July 2013, the OCC and the Federal Reserve Board approved a new rule that will substantially amend the regulatory risk-based capital rules applicable to Simplicity Bank and Simplicity. The final rule implements the Basel III regulatory capital reforms and changes required by the Dodd-Frank Act.

The final rule includes new minimum risk-based capital and leverage ratios, which will be effective for Simplicity Bank and Simplicity on January 1, 2015, and revised the definition of what constitutes capital for purposes of calculating these ratios. The new minimum capital requirements will be: (i) a new common equity Tier 1 capital ratio of 4.5%; (ii) a Tier 1 to risk-based assets capital ratio of 6% (increased from 4%); (iii) a total capital ratio of 8% (unchanged from current rules); and (iv) a Tier 1 leverage ratio of 4%. The final rule also establishes a capital conservation buffer of 2.5% above the new regulatory minimum capital ratios, and will result in the following minimum ratios: (i) a common equity Tier 1 capital ratio of 7.0%, (ii) a Tier 1 to risk-based assets capital ratio of 8.5%, and (iii) a total capital ratio of 10.5%. The new capital conservation buffer requirement would be phased in beginning in January 2016 at 0.625% of risk-weighted assets and would increase each year until fully implemented in January 2019. An institution will be subject to limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses if its capital level falls below the buffer amount. These limitations will establish a maximum percentage of eligible retained income that can be utilized for such actions.

The application of more stringent capital requirements for Simplicity Bank and Simplicity could, among other things, result in lower returns on equity, require the raising of additional capital, and result in regulatory actions such as the inability to pay dividends or repurchase shares if we were to be unable to comply with such requirements.

Changes in laws and regulations and the cost of regulatory compliance with new laws and regulations may adversely affect our operations and our income.

The potential exists for additional federal or state laws and regulations, or changes in policy, affecting lending and funding practices and liquidity standards. Moreover, bank regulatory agencies have been active in responding to concerns and trends identified in examinations, and have issued many formal enforcement orders requiring capital ratios in excess of regulatory requirements. Bank regulatory agencies, such as the OCC, the Federal Reserve Board and the FDIC, govern the activities in which we may engage, primarily for the protection of depositors, and not for the protection or benefit of potential investors. In addition, new laws and regulations may increase our costs of regulatory compliance and of doing business, and otherwise affect our operations. New laws and regulations may significantly affect the markets in which we do business, the markets for and value of our loans and investments, the fees we can charge, and our ongoing operations, costs and profitability. Legislative proposals limiting our rights as a creditor could result in credit losses or increased expense in pursuing our remedies as a creditor.

System failure or breaches of our network security could subject us to increased operating costs as well as litigation and other liabilities.

The computer systems and network infrastructure we use could be vulnerable to unforeseen problems. Our operations are dependent upon our ability to protect our computer equipment against damage from physical theft, fire, power loss, telecommunications failure or a similar catastrophic event, as well as from security breaches, denial of service attacks, viruses, worms and other disruptive problems caused by hackers. Any damage or failure that causes an interruption in our operations could have a material adverse effect on our financial condition and results of operations. Computer break-ins, phishing and other disruptions could also jeopardize the security of information stored in and transmitted through our computer systems and network infrastructure, which may result in significant liability to us and may cause existing and potential customers to refrain from doing business with us.

Although we, with the help of third-party service providers, intend to continue to implement security technology and establish operational procedures to prevent such damage, there can be no assurance that these security measures will be successful. In addition, advances in computer capabilities, new discoveries in the field of cryptography or other developments could result in a compromise or breach of the algorithms we and our third-party service providers use to encrypt and protect customer transaction data. A failure of such security measures could have a material adverse effect on our financial condition and results of operations.

Changes in our accounting policies or in accounting standards could materially affect how we report our financial condition and operating results.

Our accounting policies are essential to understanding our financial results and condition. Some of these policies require the use of estimates and assumptions that may affect the value of our assets or liabilities and financial results. Some of our accounting policies are critical because they require management to make difficult, subjective, and complex judgments about matters that are inherently uncertain and because it is likely that materially different amounts would be reported under different conditions or using different assumptions. If such estimates or assumptions underlying our financial statements are incorrect, we may experience material losses.

From time to time, the Financial Accounting Standards Board and the Securities Exchange Commission change the financial accounting and reporting standards or the interpretation of those standards that govern the preparation of our external financial statements. These changes are beyond our control, can be hard to predict and could materially impact how we report our results of operations and financial condition. We could be required to apply a new or revised standard retroactively, resulting in our restating prior period financial statements in material amounts.

The need to account for certain assets and liabilities at estimated fair value may adversely affect our results of operations.

We report certain assets, including securities, at fair value. Generally, for assets that are reported at fair value, we use quoted market prices or valuation models that utilize observable market inputs to estimate fair value. Because we carry these assets on our books at their estimated fair value, we may incur losses even if the asset in question presents minimal credit risk.

Our stock price may be volatile due to limited trading volume.

Our common stock is traded on the NASDAQ Global Select Market. However, the average daily trading volume in Simplicity s common stock has been relatively small, averaging less than 25,000 shares per day during 2014. As a result, trades involving a relatively small number of shares may have a significant effect on the market price of the common stock, and it may be difficult for investors to acquire or dispose of large blocks of stock without significantly affecting the market price.

Income from secondary mortgage market operations is volatile, and we may incur losses with respect to our secondary mortgage market operations that could negatively affect our earnings.

A key component of our strategy is to increase the extent to which we sell in the secondary market the longer term, conforming fixed-rate residential mortgage loans that we originate, earning non-interest income in the form of gains on sale. When interest rates rise, the demand for mortgage loans tend to fall and may reduce the number of loans we can originate for sale. Weak or deteriorating economic conditions also tend to reduce loan demand. Although we sell, and intend to continue selling, most loans in the secondary market with limited or no recourse, we are required, and will continue to be required, to give customary representations and warranties to the buyers relating to compliance with applicable law. If we breach those representations and warranties, the buyers will be able to require us to repurchase the loans and we may incur a loss on the repurchase.

New regulations could restrict our ability to originate loans.

The Consumer Financial Protection Bureau has issued a rule that became effective in January 2014, requiring creditors to assess a borrower s ability to repay a mortgage loan. Loans that meet this qualified mortgage definition will be presumed to have complied with the new ability-to-repay standard and enjoy special protection. Under the Consumer Financial Protection Bureau s rule, a qualified mortgage loan must not contain certain specified features, including:

- excessive upfront points and fees (those exceeding 3% of the total loan amount, less bona fide discount points for prime loan);

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- interest-only payments;
- negative-amortization; and
- terms longer than 30 years.

Also, to qualify as a qualified mortgage, a borrower s total monthly debt-to-income ratio may not exceed 43%. Lenders must also verify and document the income and financial resources relied upon to qualify the borrower for the loan and underwrite the loan based on a fully amortizing payment schedule and maximum interest rate during the first five years, taking into account all applicable taxes, insurance and assessments. The Consumer Financial Protection Bureau s rule on qualified mortgages could limit our ability or desire to make certain types of loans or loans to certain borrowers, or could make it more expensive/and or time consuming to make these loans, which could limit our growth or profitability.

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THE HOMESTREET SPECIAL MEETING

This section contains information for HomeStreet shareholders about the special meeting that HomeStreet has called to allow its shareholders to consider and vote on the issuance of up to 7,479,964 shares of HomeStreet common stock comprising the merger consideration. Based upon the price of HomeStreet s common stock and the number of shares of Simplicity common stock outstanding as of the mailing date, HomeStreet expects to issue approximately 7,161,370 shares of its common stock in connection with the merger, which number represents the total number of shares of Simplicity outstanding on the mailing date less the estimated number of shares that will be returned to Simplicity from its ESOP immediately prior to closing in connection with the settlement of loans made by Simplicity to the ESOP. However, HomeStreet is seeking approval to issue up to a total of 7,479,964 shares of common stock which includes the 7,393,308 shares of Simplicity common stock outstanding on the mailing date without reduction for the shares to be returned to Simplicity by its ESOP in connection with the settlement of loans made to that plan, plus the total number of shares of Simplicity common stock that could be exercised under outstanding stock options with an exercise price less than $20 per share. HomeStreet is mailing this joint proxy statement on or about January 9, 2015 to shareholders of record on the December 31, 2014 record date. This joint proxy statement is accompanied by a notice of the special meeting of HomeStreet shareholders and a form of proxy card that HomeStreet s board of directors is soliciting for use at the special meeting and at any adjournments or postponements of the special meeting. References to you and your in this section are to HomeStreet shareholders.

When and Where the Meeting Will Be Held

The special meeting of HomeStreet shareholders will be held at the Hilton Seattle Downtown Hotel, 1301 Sixth Avenue, Seattle, Washington 98101 beginning at 10:00 a.m., Pacific time, on January 29, 2015.

Purpose of the Meeting

At the HomeStreet special meeting, HomeStreet shareholders will be asked to consider and vote upon a proposal to issue up to 7,479,964 shares of HomeStreet common stock comprising the merger consideration (the HomeStreet stock issuance proposal).

Recommendation of HomeStreet s Board of Directors

HomeStreet s board of directors has determined that the HomeStreet stock issuance proposal is in the best interests of HomeStreet and its shareholders, has unanimously approved and adopted the merger agreement and unanimously recommends that you vote FOR the HomeStreet stock issuance proposal. See Background of and Reasons for the Merger Reasons of HomeStreet for the Merger for a more detailed discussion of HomeStreet s board of directors recommendation.

Who May Vote; Quorum

The HomeStreet board of directors has fixed the close of business on December 31, 2014, as the record date for determining the holders of HomeStreet common stock entitled to receive notice of and to vote at the HomeStreet special meeting.

As of the record date, there were 14,856,610.6 shares of HomeStreet common stock outstanding and entitled to vote at the HomeStreet special meeting held by approximately 132 holders of record. Each share of HomeStreet common stock entitles the holder to one vote on each proposal to be considered at the HomeStreet special meeting.

The representation (in person or by proxy) of at least a majority of the shares of HomeStreet common stock entitled to vote will constitute a quorum for the transaction of business. All shares of HomeStreet common stock, whether present in person or represented by proxy, including any abstentions and broker non-votes will be treated as present for purposes of determining the presence of a quorum for all matters.

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Required Vote; Treatment of Abstentions and Failure to Vote

To approve the HomeStreet stock issuance proposal, a majority of the shares of HomeStreet common stock voting on the matter must be voted in favor of such proposal. Any abstentions and broker non-votes will be counted as present for determining whether a quorum is present for the conduct of business. If you mark ABSTAIN on your proxy card, fail to either submit a proxy or vote by telephone or internet or in person at the HomeStreet special meeting, or fail to instruct your bank or broker how to vote with respect to the HomeStreet stock issuance proposal, it will have no effect upon the HomeStreet stock issuance proposal.

Shares Held by Officers and Directors

As of the record date, HomeStreet s directors and executive officers beneficially owned and were entitled to vote approximately 1,814,680.167 shares of HomeStreet common stock, representing approximately 12.15% of the shares of HomeStreet common stock outstanding on that date. Each HomeStreet director and executive officer is expected to vote his or her shares in favor of the HomeStreet stock issuance proposal. As of the record date, Simplicity and its directors and executive officers beneficially held no shares of HomeStreet common stock.

Voting on Proxies; Incomplete Proxies

A HomeStreet shareholder may vote by proxy or in person at the HomeStreet special meeting. If you hold your shares of HomeStreet common stock in your name as a shareholder of record, to submit a proxy, you may use any of the following methods:

- Through the Internet: by visiting the website indicated on the proxy card and following the instructions. You are encouraged to vote through the Internet.

- By telephone: by calling the toll-free number indicated on the proxy card and following the recorded instructions.

- By mail: by completing and returning the proxy card in the enclosed envelope. The envelope requires no additional postage if mailed in the United States.

When you submit your vote using one of these methods, your shares of HomeStreet stock will be voted in accordance with your instructions. If any proxy card is returned without indication as to how to vote, the shares of HomeStreet common stock represented by that proxy card will be voted as recommended by the HomeStreet board of directors.

If your HomeStreet shares are held in street name by a broker, bank or other nominee, you should check the voting form used by that firm to determine how to vote, including whether it may vote by the Internet or telephone.

Your vote is important. Accordingly, please sign, date and return the enclosed proxy card, or vote via the Internet or by telephone, whether or not you plan to attend the HomeStreet special meeting. Sending in your proxy card or voting by the internet or telephone will not prevent you from voting your shares personally at the meeting, since you may revoke your proxy at any time before it is voted.

Shares Held in Street Name ; Broker Non-Votes

Under stock exchange rules, banks, brokers and other nominees who hold shares of HomeStreet common stock in street name for a beneficial owner typically have the authority to vote in their discretion on routine proposals when they have not received instructions from beneficial owners. However, those nominees cannot vote on non-routine matters without specific instructions from the beneficial owner. HomeStreet expects that all proposals to be voted on at the HomeStreet special meeting will be non-routine matters. Broker non-votes are shares held by a broker, bank or other nominee that are represented at the HomeStreet special meeting, but with respect to which the broker or nominee is not instructed by the beneficial owner of such shares to vote on the particular proposal and the broker does not have discretionary voting power on such proposal. If your broker, bank or other nominee holds your shares of HomeStreet common stock in street name, your broker, bank or other nominee will vote your shares of HomeStreet common stock only if you provide instructions on how to vote by complying with the voter instruction form sent to you by your broker, bank or other nominee with this joint proxy statement.

Revocability of Proxies and Changes to a HomeStreet Shareholder s Vote

If you hold stock in your name as a shareholder of record, you may revoke any proxy at any time before it is voted by (1) signing and returning a proxy card with a later date, (2) delivering a written revocation letter to HomeStreet s corporate secretary, (3) attending the special meeting in person, notifying the corporate secretary and voting by ballot at the special meeting or (4) voting by telephone or the internet at a later time.

Any shareholder entitled to vote in person at the special meeting may vote in person regardless of whether a proxy has been previously given, but the mere presence (without notifying HomeStreet s corporate secretary) of a shareholder at the special meeting will not constitute revocation of a previously given proxy.

Written notices of revocation and other communications about revoking your proxy card should be addressed to:

HomeStreet, Inc.

Attn: Corporate Secretary

601 Union Street Suite 2000

Seattle, Washington 98101

(206) 623-3050

If your shares are held in street name by a bank or broker, you should follow your bank s or broker s instructions regarding the revocation of proxies.

Participants in the HomeStreet 401(k) Plan

If you hold shares indirectly in the HomeStreet 401(k) Savings Plan, or 401(k) Plan, you have the right to direct the plan trustee how to vote the shares that you hold in your account. Please follow the instructions you receive from the Trustee regarding the voting of any 401(k) Plan shares that you may hold. In accordance with the terms of the plan, if you fail to instruct the plan trustee how to vote your plan shares, the trustee will not vote your plan shares except as required by law.

Solicitation of Proxies

HomeStreet is soliciting your proxy in conjunction with the merger. HomeStreet will bear the entire cost of soliciting proxies from HomeStreet shareholders. In addition to soliciting proxies by mail, HomeStreet will request that banks, brokers and other record holders send proxies and proxy materials to the beneficial owners of HomeStreet common stock and secure their voting instructions. HomeStreet will reimburse the record holders for their reasonable expenses in taking those actions. If necessary, HomeStreet may use its directors and employees, who will not be specially compensated, to solicit proxies from the its shareholders, either personally or by telephone, facsimile, letter or electronic means.

Attending the Meeting

Subject to space availability, all HomeStreet shareholders as of the record date, or their duly appointed proxies, may attend the HomeStreet special meeting.

If you hold your shares of HomeStreet common stock in your name as a shareholder of record and you wish to attend the HomeStreet special meeting, please bring your proxy card and evidence of your stock ownership, such as your most recent account statement, to the HomeStreet special meeting. You should also bring valid picture identification. We encourage you to register your vote through the Internet or by telephone whenever possible.

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Delivery of Proxy Materials

As permitted by applicable law, only one copy of this joint proxy statement is being delivered to shareholders residing at the same address, unless such shareholders have notified HomeStreet of their desire to receive multiple copies.

HomeStreet will promptly deliver, upon oral or written request, a separate copy of the joint proxy statement to any shareholder residing at an address to which only one copy of such document was mailed. Requests for additional copies should be directed to HomeStreet s Corporate Secretary at the address and telephone number above.

Assistance

If you need assistance in completing your proxy card, have questions regarding HomeStreet s special meeting, or voting by mail, telephone or the internet or would like additional copies of this joint proxy statement, please contact HomeStreet s investor relations department by calling 206-264-4200, by writing to HomeStreet, Inc., attn: Investor Relations, 2000 Two Union Square, 601 Union Street, Seattle, Washington 98101 or by electronic mail at IR@homestreet.com.

Attendance by HomeStreet s Independent Auditors

Representatives of Deloitte & Touche LLP, HomeStreet s principal accounting firm, are not expected to be present at the special meeting.

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HOMESTREET PROPOSAL 1

APPROVAL OF ISSUANCE OF SHARES

Approval of Issuance of Shares

In order for HomeStreet to complete the merger, HomeStreet shareholders must first approve the issuance of up to 7,479,964 shares of HomeStreet common stock as merger consideration. As of the mailing date, based on the price of HomeStreet s common stock and the number of shares of Simplicity common stock outstanding, if the merger is completed, HomeStreet expects to issue approximately 7,161,370 shares of common stock as merger consideration after subtracting the number of shares that will be returned to Simplicity from its ESOP immediately prior to closing in connection with the settlement of loans made by Simplicity to the ESOP. However, we are requesting authorization to issue an aggregate number of shares equal to the total number of shares of Simplicity common stock outstanding on the mailing date of this joint proxy without any adjustment for shares of Simplicity common stock that are expected to be returned to Simplicity by the ESOP in connection with settlement of those loans, plus the number of shares of Simplicity common stock that can be issued pursuant to outstanding options to purchase Simplicity common stock with an exercise price less than $20 per share. If the merger is consummated, each Simplicity stockholder will receive one share of HomeStreet common stock for each share of Simplicity common stock, so long as the average closing price of HomeStreet common stock is not less than $15.00 per share and not more than $20.00 per share. If the average closing price exceeds $20.00 per share, Simplicity stockholders would receive less than one share of HomeStreet common stock per share of Simplicity stock, using a ratio determined by dividing $20.00 by the average closing price. If the average closing price is less than $15.00 per share, HomeStreet is permitted, but not required, to increase the exchange ratio to a result determined by dividing $15.00 by the average closing price. If HomeStreet elects not to increase the exchange ratio under those circumstances, then Simplicity has the option to terminate the merger agreement.

Under Nasdaq rules, a listed company is required to obtain shareholder approval prior to the issuance of securities if the number of shares of common stock to be issued will be equal to or greater than 20% of the number of shares of common stock outstanding before the transaction. If the merger is completed, HomeStreet currently expects to issue up to 7,479,964 shares of HomeStreet common stock in connection with the merger, based on the number of shares of Simplicity common stock currently outstanding (including shares of Simplicity restricted stock shares that may be forfeited in repayment of Simplicity s ESOP loan and shares that may be issued on exercise of stock options with an exercise price less than $20 per share) and assuming a 1 to 1 exchange ratio. Accordingly, the aggregate number of shares of HomeStreet common stock that HomeStreet will issue in the merger will exceed 20% of the shares of HomeStreet common stock outstanding before such issuance. HomeStreet is therefore seeking the approval of its shareholders for the issuance of the shares representing the merger consideration. If the stock price of HomeStreet common stock were to fall below $15 based on average closing prices during the ten trading day period preceding the closing, HomeStreet may increase the merger consideration. In order to address such a possibility, HomeStreet may, by amendment to this joint proxy statement sent or given to HomeStreet s shareholders no later than ten (10) days before the HomeStreet special meeting, seek approval by HomeStreet shareholders of an increased number of shares of HomeStreet common stock.

If this proposal is not approved by HomeStreet shareholders, the merger cannot be consummated. If this proposal is approved by HomeStreet shareholders, but the merger is not completed, HomeStreet will not issue shares in connection with this transaction.

The HomeStreet board of directors recommends a vote FOR approval of the issuance of shares of HomeStreet common stock in this transaction.

HOMESTREET S BOARD RECOMMENDS THAT THE HOMESTREET SHAREHOLDERS VOTE TO APPROVE THE ISSUANCE OF THE SHARES COMPRISING THE MERGER CONSIDERATION BY SIGNING AND RETURNING THE ATTACHED PROXY IN ACCORDANCE WITH THE ACCOMPANYING INSTRUCTIONS.

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THE SIMPLICITY SPECIAL MEETING

This section contains information for Simplicity stockholders about the special meeting that Simplicity has called to allow its stockholders to consider and vote on the merger agreement, to vote to approve, on an advisory basis, the Merger-Related Executive Compensation, and other related matters. Simplicity is mailing this joint proxy statement to Simplicity stockholders, on or about January 9, 2015. This joint proxy statement is accompanied by a notice of the special meeting of Simplicity stockholders and a form of proxy card that Simplicity s board of directors is soliciting for use at the special meeting and at any adjournments or postponements of the special meeting. References to you and your in this section are to Simplicity stockholders.

When and Where the Meeting Will Be Held

The special meeting of Simplicity stockholders will be held at the Hilton Pasadena Hotel, 168 South Los Robles, Pasadena, California 91101 beginning at 5:00 p.m., Pacific time, on February 11, 2015.

Purpose of the Meeting

At the Simplicity special meeting, Simplicity stockholders will be asked to consider and vote on the following matters:

- To approve the Agreement and Plan of Merger, dated September 27, 2014 between Simplicity and HomeStreet and the transactions contemplated thereby.

- To approve an advisory (non-binding) resolution approving the Merger-Related Executive Compensation.

Recommendation of Simplicity s Board of Directors

Simplicity s board of directors has determined that the merger agreement and the transactions contemplated thereby, including the merger, are in the best interests of Simplicity and its stockholders; and has unanimously approved and adopted the merger agreement and unanimously recommends that you vote FOR the Simplicity merger proposal, and FOR the Merger-Related Executive Compensation proposal. See Background of and Reasons for the Merger Reasons of Simplicity for the Merger; Recommendation of Simplicity s Board of Directors for a more detailed discussion of Simplicity s board of directors recommendation.

Who May Vote; Quorum

The Simplicity board of directors has fixed the close of business on December 31, 2014, as the record date for determining the holders of Simplicity common stock entitled to receive notice of and to vote at the Simplicity special meeting.

As of the record date, there were 7,392,908 shares of Simplicity common stock outstanding and entitled to vote at the Simplicity special meeting held by approximately 2,616 holders of record. Each share of Simplicity common stock entitles the holder to one vote on each proposal to be considered at the Simplicity special meeting.

The representation (in person or by proxy) of at least a majority of the shares of Simplicity common stock entitled to vote at the Simplicity special meeting will constitute a quorum for the transaction of business. All shares of Simplicity common stock, whether present in person or represented by proxy, including abstentions and broker non-votes, if any, will be treated as present for purposes of determining the presence of a quorum for all matters voted on at the Simplicity special meeting.

Required Vote; Treatment of Abstentions and Failure to Vote

To approve the Simplicity merger proposal, a majority of the shares of Simplicity common stock outstanding and entitled to vote thereon must be voted in favor of such proposal. The Merger-Related Executive Compensation proposal will be approved if the votes cast in favor of such proposal at the Simplicity special meeting represent a majority of the votes cast on that matter. Any abstentions and broker non-votes will be counted as present for determining whether a quorum is present for the conduct of business. If you mark ABSTAIN on your proxy card, fail to either submit a proxy or vote by telephone or internet or in person at the Simplicity special meeting, or fail to instruct your bank or broker how to vote with respect to the Simplicity merger proposal, it will have the same effect as a vote against the proposal to approve the merger agreement and the merger, because such approval requires the affirmative vote of the holders of a majority of the shares outstanding and entitled to vote. An abstention, failure to vote, or broker nonvote will have no effect upon the Merger-Related Executive Compensation proposal.

Shares Held by Officers and Directors

As of the record date, 315,467 shares of Simplicity common stock, representing approximately 4.3% of the shares of Simplicity common stock outstanding on that date, were owned by Simplicity s executive officers and directors. Each Simplicity director and executive officer has agreed to vote his or her shares in favor of the Simplicity merger proposal. See The Merger Summary of the Merger Director and Officer Voting Agreements; Indemnification and Insurance. As of the record date, HomeStreet and its directors and executive officers beneficially held no shares of Simplicity common stock.

Voting on Proxies; Incomplete Proxies

A Simplicity stockholder may vote by proxy or in person at the Simplicity special meeting. If you hold your shares of Simplicity common stock in your name as a stockholder of record, to submit a proxy, you may use one of the following methods:

- Through the Internet: by visiting the website indicated on the proxy card and following the instructions. You are encouraged to vote through the Internet.

- By telephone: by calling the toll-free number indicated on the proxy card and following the recorded instructions.

- By mail: by completing and returning the proxy card in the enclosed envelope. The envelope requires no additional postage if mailed in the United States.

Simplicity requests that Simplicity stockholders vote through the Internet, by telephone or by completing and signing the accompanying proxy card and returning it to Simplicity as soon as possible in the enclosed postage-paid envelope. When you submit your vote using one of these methods, your shares of Simplicity stock will be voted in accordance with your instructions. If any proxy card is returned without indication as to how to vote, the shares of Simplicity common stock represented by the proxy card will be voted as recommended by the Simplicity board of directors.

If your shares are held in street name by a broker, bank or other nominee, you should check the voting form used by that firm to determine how to vote, including whether you may vote by the Internet or telephone.

Every Simplicity stockholder s vote is important. Accordingly, please date and return the enclosed proxy card, or vote via the Internet or by telephone, whether or not you plan to attend the Simplicity special meeting. Sending in your proxy card or voting by the Internet or telephone will not prevent you from voting your shares personally at the meeting, since you may revoke your proxy at any time before it is voted.

Shares Held in Street Name ; Broker Non-Votes

Under stock exchange rules, banks, brokers and other nominees who hold shares of Simplicity common stock in street name for a beneficial owner typically have the authority to vote in their discretion on routine proposals when they have not received instructions from beneficial owners. However, those nominees cannot vote on non-routine matters without specific instructions from the beneficial owner. Simplicity expects that all proposals to be voted on at the Simplicity special meeting will be non-routine matters. Broker non-votes are shares held by a broker, bank or other nominee that are represented at the Simplicity special meeting, but with respect to which the broker or nominee is not instructed by the beneficial owner of such shares to vote on the particular proposal and the broker does not have discretionary voting power on such proposal. If your broker, bank or other nominee holds your shares of Simplicity common stock in street name, your broker, bank or other nominee will vote your shares of Simplicity common stock only if you provide instructions on how to vote by complying with the voter instruction form sent to you by your broker, bank or other nominee with this joint proxy statement. A broker nonvote will have no effect upon the Merger-Related Executive Compensation proposal, but because the Simplicity merger proposal requires the affirmative vote of a majority of Simplicity s outstanding stock entitled to vote at the meeting, a broker nonvote will have the same effect as a vote cast against the merger.

Revocability of Proxies and Changes to a Simplicity Stockholder s Vote

If you hold stock in your name as a stockholder of record, you may revoke any proxy at any time before it is voted by (1) signing and returning a proxy card with a later date, (2) delivering a written revocation letter to Simplicity s corporate secretary, (3) attending the special meeting in person, notifying the corporate secretary and voting by ballot at the special meeting or (4) voting by telephone or the Internet at a later time.

Any stockholder entitled to vote in person at the special meeting may vote in person regardless of whether a proxy has been previously given, but the mere presence (without notifying Simplicity s corporate secretary) of a stockholder at the special meeting will not constitute revocation of a previously given proxy.

Written notices of revocation and other communications about revoking your proxy card should be addressed to:

Simplicity Bancorp, Inc.

Attn: Corporate Secretary

1359 North Grand

Covina, California 91724

(800) 524-2274

If your shares are held in street name by a bank or broker, you should follow the instructions of your bank or broker regarding the revocation of proxies.

Participants in the Simplicity ESOP and Simplicity 401(k) Plan

If you participate in the Simplicity Bank Employee Stock Ownership Plan (the Simplicity ESOP) or if you hold shares through the Simplicity Bank Employees Savings & Profit Sharing Plan (the Simplicity 401(k) Plan), you will receive a voting instruction form for each plan so that you can direct the plan trustee(s) how to vote the shares that you hold in your plan account(s). The Simplicity ESOP votes all shares held by the Simplicity ESOP, but each Simplicity ESOP participant may direct the trustee how to vote the shares of common stock allocated to his or her account. The Simplicity ESOP trustee, subject to the exercise of its fiduciary duties, will vote all unallocated shares of Simplicity common stock held by the Simplicity ESOP and allocated shares for which no voting instructions are received in the same proportion as shares for which it has received timely voting instructions.

For the Simplicity 401(k) Plan, a participant is entitled to direct the trustee how to vote the shares of Simplicity common stock held by the Simplicity Bancorp Stock Fund, and the interest in such shares that is credited to his or her account. The Simplicity 401(k) Plan trustee, subject to the exercise of its fiduciary duties, will vote all shares for which no directions are given or for which instructions were not timely received in the same proportion as shares for which it has received timely voting instructions.

The deadline for returning your voting instructions to each plan s trustee is February 4, 2015.

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Solicitation of Proxies

Simplicity is soliciting your proxy in conjunction with the merger. Simplicity will bear the entire cost of soliciting proxies from Simplicity stockholders. In addition to soliciting proxies by mail, Simplicity will request that banks, brokers and other record holders send proxies and proxy materials to the beneficial owners of Simplicity common stock and secure their voting instructions. Simplicity will reimburse the record holders for their reasonable expenses in taking those actions. If necessary, Simplicity may use its directors and several of its regular employees, who will not be annually compensated, to solicit proxies from its stockholders, either personally or by telephone, facsimile, letter or electronic means. Simplicity has also made arrangements with Regan & Associates, Inc. to assist it in soliciting proxies and has agreed to pay Regan & Associates, Inc. $12,500 plus reasonable expenses for those services.

In the event there are not sufficient votes for a quorum or to approve either of matters presented, the Simplicity special meeting may be adjourned to permit the further solicitation of proxies.

Attending the Meeting

Subject to space availability, all Simplicity stockholders as of the record date, or their duly appointed proxies, may attend the Simplicity special meeting.

If you hold your shares of Simplicity common stock in your name as a stockholder of record and you wish to attend the Simplicity special meeting, please bring your proxy card and evidence of your stock ownership, such as your most recent account statement, to the Simplicity special meeting. You should also bring valid picture identification. We encourage you to register your vote through the Internet or by telephone whenever possible.

Delivery of Proxy Materials

As permitted by applicable law, only one copy of this joint proxy statement is being delivered to stockholders residing at the same address, unless such stockholders have notified Simplicity of their desire to receive multiple copies. Requests for additional copies should be directed to Simplicity s Corporate Secretary at the address and phone number above.

Assistance

If you need assistance in completing your proxy card, have questions regarding Simplicity s special meeting, or voting by mail, telephone or the internet or would like additional copies of this joint proxy statement, please contact:

Dustin Luton or Jean Carandang

Simplicity Bancorp, Inc.

1359 North Grand

Covina, California 91724

(800) 524-2274

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SIMPLICITY BANCORP PROPOSAL 1

APPROVAL OF MERGER AGREEMENT AND MERGER

General

Simplicity stockholders are being asked to vote to approve the Agreement and Plan of Merger dated September 27, 2014 between Simplicity and HomeStreet and the transactions contemplated thereby.

If the Agreement and Plan of Merger is approved, Simplicity will merge with and into HomeStreet, Inc., and Simplicity Bank will merge with and into HomeStreet s wholly owned subsidiary, HomeStreet Bank. If the merger is approved and completed, Simplicity stockholders will be entitled to receive one share of HomeStreet common stock for each share of Simplicity common stock they own at the effective time, subject to certain adjustments if Homestreet s average closing price during a specified measurement period prior to the effective time is more than $20, and subject to adjustment or termination if Homestreet s average closing price during that period is less than $15 per share. The following is a summary of the Agreement and Plan of Merger and is qualified by reference to the complete text of the Agreement and Plan of Merger, a copy of which is attached to this joint proxy statement as Annex A and is incorporated by reference into this joint proxy statement. You should read the Agreement and Plan of Merger completely and carefully as it, rather than this description, is the legal document that governs the merger.

SIMPLICITY S BOARD RECOMMENDS THAT THE SIMPLICITY STOCKHOLDERS VOTE TO APPROVE THE MERGER AGREEMENT AND THE MERGER BY SIGNING AND RETURNING THE ATTACHED PROXY IN ACCORDANCE WITH THE ACCOMPANYING INSTRUCTIONS.

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BACKGROUND OF AND REASONS FOR THE MERGER

How Did the Merger Come About?

Both Simplicity and HomeStreet have maintained a longstanding focus on growth and on strategic opportunities to enhance shareholder value. Simplicity s management and board of directors regularly review Simplicity s strategic and financial prospects, and have from time to time considered various opportunities for increasing the long-term value for Simplicity s stockholders. HomeStreet s management and board of directors have been pursuing growth for the past two years as part of HomeStreet s ongoing strategic plans, and as part of that strategic plan regularly consider and evaluate strategic acquisition opportunities in its target markets. These internal evaluations by HomeStreet and Simplicity have focused on, among other things, the business environment facing financial institutions generally, conditions and ongoing consolidation in the financial services industry and ways to enhance their respective competitive positions.

Since completing its conversion from a mutual holding company to a stock holding company and raising $63.8 million in gross proceeds in an initial public offering completed in November 2010, Simplicity has deployed its capital through strategic initiatives, including creating a distinctive new brand by changing the bank s name from Kaiser Federal Bank to Simplicity Bank, expanding its mortgage and consumer lending capabilities, and by investing in technology and expanding of e-commerce and mobile banking solutions. In addition, Simplicity sought to manage capital by implementing share repurchase programs and paying a quarterly cash dividend.

Simplicity has remained profitable and has maintained strong asset quality despite limited loan and deposit growth, but its net income has declined since 2011. Simplicity s board recognized the difficulty in growing profitably and operating a financial institution without increased size and scale given: (i) current economic conditions, including the slow recovery from the recession; (ii) a prolonged period of low interest rates, with deposit costs near historical lows and loan and securities yields declining; (iii) competitive conditions, especially with respect to commercial lending; and (iv) the increasing regulatory compliance costs and risk management practices. Simplicity s board also believed that Simplicity would find it difficult to grow by acquiring other institutions because Simplicity s common stock was trading at a discount to book value. As a result, Simplicity would have to dilute its tangible book value in order to pay a book value premium for a potential target. In the judgment of Simplicity s board, such an action would adversely affect Simplicity stockholders.

Since its initial public offering in February 2012, HomeStreet has experienced a resurgence in its business. Management deployed a portion of the capital raised from that transaction to address asset quality issues, some of which had remained unresolved following the banking crisis and general economic downturn between 2007 and 2010. After meeting HomeStreet s initial asset quality and capital adequacy targets, and following the lifting of regulatory orders to which HomeStreet had been subject since early 2009, management began to reinvigorate the institution with a strategic growth initiative that contemplated expansion of HomeStreet Bank s mortgage and commercial banking operations with a focus on California and other markets management viewed as complementary to HomeStreet s then-existing geographic footprint. In 2013, HomeStreet expanded both its commercial banking capacity and its Pacific Northwest market by acquiring Seattle-based Fortune Bank and eastern Washington-based Yakima National Bank, as well as two retail banking branches in Seattle formerly owned by AmericanWest Bank. In 2014, HomeStreet expanded its commercial real estate and residential construction lending operations, opening offices in Salt Lake City, Utah and Newport Beach, California. In addition to these commercial and consumer banking business expansion efforts, HomeStreet, beginning in 2012, has expanded its mortgage lending operations geographically, opening 47 home loan centers in Washington, Oregon, Idaho, Hawaii, Arizona and California. HomeStreet has continued to explore opportunities to diversify its commercial banking operations into markets such as Southern California, where it has established a growing presence in mortgage originations but where it has not historically collected deposits or made commercial loans.

In March 2014, Simplicity s board held its annual strategic planning session where it invited the investment banking firm of Keefe, Bruyette & Woods, Inc. (KBW), to update the board on the banking industry in general, the current merger and acquisition market in particular and industry trends. KBW is a nationally recognized investment banking firm and served as Simplicity s financial advisor in connection with its conversion to a stock holding company in 2010. As in prior years, management and the board discussed Simplicity s strategic options, its prospects as a stand-alone institution and, with feedback from KBW, Simplicity s potential valuation in a merger transaction. The Simplicity board also considered increasing pressure by certain shareholders to maximize stockholder value, including but not limited to, the Schedule 13D filed by Clover Partners, L.P. with the SEC on February 24, 2014. The board, with the assistance of management and KBW, reviewed hypothetical future performance and financial condition metrics under three illustrative operating scenarios which were identified by management for the four year period ending June 30, 2018: zero growth; modest growth (2% growth in loans and deposits); and high growth (6% growth in loans and deposits). The high growth scenario also assumed Simplicity would transition its business to focus more on commercial banking and would increase share buybacks. The board also reviewed hypothetical values available in the merger and acquisition market based on assumed multiples of tangible book value. In connection with the presentation, the board discussed whether a merger might produce a superior return for Simplicity stockholders as compared to remaining independent. In this regard, the board also considered the execution risk associated with remaining independent and implementing a high growth and commercial bank business strategy, including increasing competitive risk and the relative difficulty in attracting and retaining the appropriate personnel. The board determined that Simplicity should explore third-party interest in acquiring Simplicity in order to understand and evaluate the value that might be obtained in a merger transaction. In addition, the board decided to retain KBW as Simplicity s financial advisor to assist with the exploration of third party interest. The board of directors did not limit the types of parties that could be contacted.

During April 2014 and with KBW s assistance, Simplicity management prepared a Confidential Information Memorandum (CIM) to be used to solicit indications of interest, and Simplicity began to populate a virtual data room for potential acquirers to conduct due diligence. On April 30, 2014, the Simplicity board held a regular board meeting at which KBW provided an update on the current merger and acquisition market and reviewed with the board 14 potential merger partners, which included HomeStreet. These potential merger partners consisted of institutions that appeared to have the financial ability to acquire Simplicity and to be large enough to execute such a transaction, had no known regulatory issues, and appeared to have an interest in Simplicity s geographic markets.

HomeStreet also was examining expansion opportunities at that time. On April 9, 2014, HomeStreet s management, including Messrs. Mason, Stewart, Evans and van Amen, met with MJ Capital Partners, LLC (MJCP) to discuss potential acquisition opportunities. The meeting included a discussion of the acquisition environment in HomeStreet s current and prospective markets, and focused on acquisition opportunities that might help HomeStreet expand its geographic reach. At this meeting, which was conducted at HomeStreet s executive offices in Seattle, MJCP identified Simplicity as one of a number of prospective acquisition candidates. At the conclusion of this meeting, HomeStreet s management directed MJCP to explore various possibilities and identify one or more prospective acquisition targets that HomeStreet might acquire at a reasonable valuation, while still avoiding unnecessary risk and dilution to HomeStreet and its shareholders.

In May 2014, at the Simplicity board s direction, and after reviewing prospective merger partners with Simplicity s board, KBW began contacting financial institutions (either directly or through those firms advisors) to solicit interest in acquiring Simplicity. Interested parties were asked to sign a non-disclosure agreement in exchange for a copy of the CIM and access to the virtual data room. The non-disclosure agreements included customary restrictions on the use and dissemination of confidential information reviewed as part of the due diligence process, but did not include standstill or don t ask, don t waive provisions.

The parties respective directives to their financial advisors resulted in preliminary contacts between MJCP and KBW in early May 2014. During this discussion, MJCP learned that Simplicity had prepared the CIM and that its board of directors was considering alternatives for maximizing stockholder value. After preliminary discussions between MJCP and KBW, HomeStreet revised Simplicity s proposed non-disclosure agreement to be a reciprocal non-disclosure agreement and executed and delivered that agreement to Simplicity on May 14, 2014. Simplicity returned the signed document on May 15, 2014. HomeStreet was granted access to Simplicity s virtual data room on or about May 19, 2015, and was provided a copy of the CIM on May 22, 2015.

During the period from May through June 2014, in accordance with the instructions by Simplicity s board of directors, KBW contacted a total of 17 prospective acquirors on behalf of Simplicity. Eight of these 17 companies, including HomeStreet, expressed interest and executed the non-disclosure agreement, which allowed them to receive the CIM and granted them access to the virtual data room.

On May 28, 2014, at its regular board meeting, Simplicity s legal counsel, Luse Gorman Pomerenk & Schick, P.C. (Luse Gorman) made a presentation to the board of directors regarding the board s fiduciary duties in general and in connection with a potential merger transaction. Luse Gorman also provided an overview of the merger process, including the negotiation of a merger agreement and the bank regulatory review process. KBW then updated the board on the current due diligence that was ongoing by the potential acquirers.

On or about May 29, 2014, following preliminary financial and valuation due diligence by HomeStreet s financial and treasury groups, Mr. Cavallaro of MJCP made a presentation to HomeStreet s management executive committee, including Messrs. Mason, Stewart, van Amen, Evans and Hettel, HomeStreet s executive responsible for strategic and financial analysis. The presentation and subsequent conversation included a specific discussion of Simplicity as a prospective acquisition candidate as well as a general description of various financial modeling scenarios relating to a possible acquisition of Simplicity. Mr. Cavallaro also indicated that Simplicity was expecting a price reflecting a premium to its book value and believed that the price expectation was at least $20 per share.

From June 1 through June 4, 2014, HomeStreet expanded its due diligence to include review by core business groups at HomeStreet of relevant diligence materials as well as an initial review of certain matters by HomeStreet s counsel, Davis Wright Tremaine LLP (DWT), in order to determine what bid, if any, HomeStreet would be willing to submit to Simplicity by the requested early June deadline for bid submissions. On June 4, 2014, HomeStreet senior management, including Messrs. Hettel, Stewart and van Amen and Ms. Taylor and Ms. Lemon, and DWT representatives involved in the due diligence process met to discuss the outcome of the diligence review. Following that meeting, Mr. Hettel briefed other members of management, including Messrs. Mason and Evans, on the outcome of the diligence review. Management determined that the terms that HomeStreet would be prepared to offer at that time were unlikely to be at a price that Simplicity would find attractive and that management still had a number of questions that remained unanswered to date. As a result, HomeStreet suspended its due diligence review of Simplicity on the afternoon of June 4, 2014 and instructed MJCP to advise KBW that its due diligence investigation remained incomplete and that HomeStreet did not believe it could offer a price that was likely to be acceptable to Simplicity. However, HomeStreet also directed MJCP to indicate that HomeStreet would be interested in re-initiating discussions and investigating further to address management s outstanding diligence questions following the bid deadline if Simplicity remained interested.

Following this communication, Mr. Cavallaro of MJCP met again with HomeStreet s management to revisit the merits and risks of a potential acquisition of Simplicity on June 10, 2014. This meeting included HomeStreet executives Messrs. Stewart, Evans and Hettel.

At HomeStreet Bank s regular board meeting on June 26, 2014, management provided a briefing to the board of HomeStreet Bank, which including a majority of the members of HomeStreet board of directors, regarding the potential acquisition opportunity, including an overview of the potential merits and risks analyzed in the initial due diligence process. However, management also informed HomeStreet s board of certain open questions that could not be satisfied through review of the financial and other information posted in the virtual data room. Management also noted that they did not believe the parties could reach a consensus on structure or on price due, in part, to the estimated high level of transaction and integration costs. Management advised HomeStreet s board

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of directors that it had declined to submit a bid but that if the terms were more advantageous, there might still be a case to be made for acquiring Simplicity.

Meanwhile, on June 25, 2014, Simplicity s board held a regular meeting at which it received an update from KBW on the ongoing solicitation process, which had not resulted in the submission of any bids. KBW reviewed the 17 potential parties that had been contacted and the current status of discussions with each. KBW discussed with the board some of the reasons expressed by potential acquirers as to why they were not currently interested in acquiring Simplicity. Some acquirers had indicated that they believed Simplicity was too small, while others indicated that they were not interested in a retail deposit franchise as it was not aligned with their current commercial banking strategic initiatives. In HomeStreet s case, KBW informed the Simplicity board that HomeStreet had indicated that it was interested, but given the level of transaction and integration costs, HomeStreet s management did not believe it could present an offer at a price Simplicity would find attractive.

At the Simplicity board s direction, KBW contacted MJCP in late June 2014 to explore the terms on which HomeStreet might be willing to pursue a transaction. HomeStreet s response was that based on its preliminary due diligence as of that time, it believed that it could make an offer approximately equal to or slightly less than book value.

KBW communicated this information back to Simplicity, which indicated a willingness to entertain discussions on terms that might be acceptable to both parties. HomeStreet thus resumed internal discussions and re-engaged its legal counsel, DWT, to join management in conducting a more thorough due diligence investigation including a preliminary on-site due diligence review by management. HomeStreet s management, including Messrs. Mason, Evans, van Amen and Hettel, Ms. Taylor and Ms. Lemon, conducted onsite due diligence at Simplicity s offices on July 14-15, 2014, and conducted a follow up meeting with MJCP and DWT in Seattle on July 17, 2014.

At a HomeStreet regular board meeting on July 24, 2014, HomeStreet s management offered a presentation to the board regarding the current status of the Simplicity opportunity reflecting the developments described above.

On July 30, 2014, Simplicity s board held a regular meeting at which KBW provided an update on the ongoing process. KBW informed the Board that there was remaining potential interest from only HomeStreet and one other party (Party A), out of the eight companies that had signed non-disclosure agreements.

After meetings with the HomeStreet executive committee on August 20, 2014, HomeStreet s management delivered an indicative proposal, in the form of a non-binding letter of intent, to Simplicity s management and board of directors on August 25, 2014. The initial proposal contemplated an exchange ratio of 0.98 HomeStreet shares for each outstanding Simplicity share, which valued Simplicity common stock as of August 24, 2014 at $17.50 per share. This non-binding letter of intent also contemplated a termination fee of 4.0% of the aggregate transaction value and a 60-day exclusivity period.

On August 27, 2014, Simplicity s board of directors held a regular meeting at which KBW and Luse Gorman discussed the nonbinding letter of interest from HomeStreet. In addition, KBW informed the board that Party A had reiterated its interest, but Party A had also indicated that it was unlikely to submit an indication of interest in the near term due to other priorities. The board evaluated the HomeStreet proposal, including reviewing analyst research reports on the company which included analyst estimates of HomeStreet s 2015 future earnings, HomeStreet s strategic plans and other available public information. The board discussed whether it was likely that HomeStreet would increase its offer. The board concluded that based on the market valuation of HomeStreet s stock, HomeStreet would be limited in its ability to dramatically increase its offer and still secure the approval of its shareholders because of tangible book value dilution. The board authorized KBW to seek to increase the exchange ratio to one share and add board representation to the proposal. Following further discussion, Simplicity s board decided to invite HomeStreet s

President and Chief Executive Officer and other senior officers to meet the board and explain the potential long-term benefits of a strategic combination between the companies. The board also decided to invite the President and Chief Executive Officer of Party A to meet with the board to explore whether a potential transaction was possible.

At the September 5, 2014 special Simplicity board meeting, the Simplicity board entertained a presentation from the President and Chief Executive Officer of Party A, who reiterated Party A s position that for its own strategic reasons, it was not prepared at that time to extend a formal offer, and that any offer it could expect to deliver in the foreseeable future would likely come at a discount to book value. Following Party A s presentation, HomeStreet s President and Chief Executive Officer offered a presentation explaining HomeStreet s strategic plan and how a merger with Simplicity would allow HomeStreet to expand into the Los Angeles market, to increase its capital position and better leverage Simplicity s capital. HomeStreet also agreed to revise its nonbinding letter of interest to increase the exchange ratio from 0.98 to 1.0 share of HomeStreet common stock for each share of Simplicity common stock, which increased the implied value of a share of Simplicity common stock to $17.91 as of September 4, 2014, representing 98.6% of Simplicity s tangible book value. In addition, HomeStreet agreed to add one Simplicity board member to its board upon consummation of the merger. Following both presentations, the board of directors discussed HomeStreet s proposal with KBW (HomeStreet and Party A having been excused from the meeting).

Simplicity s board decided not to pursue a transaction with Party A any further because it was unclear when or if Party A would be prepared to discuss terms of a potential transaction and the general pricing parameters that were discussed were not better than HomeStreet s proposal. Simplicity s board then continued to evaluate the HomeStreet proposal, including reviewing analyst research reports on the company which included analyst estimates of HomeStreet s 2015 future earnings, HomeStreet s strategic plans and other available public information. The board discussed whether it was likely that HomeStreet would increase its offer. The board concluded that based on the market valuation of HomeStreet s stock, HomeStreet s practical ability to increase its offer materially would be limited because of the tangible book value dilution that would result from a higher price.

Simplicity s board considered that HomeStreet s stock was potentially undervalued by the market relative to its peer financial institutions based on the Board s review of analyst estimates of HomeStreet s 2015 future earnings and expected cost savings as part of the potential combination and that with the economies of scale of a larger company with greater geographic diversification and broader product array, HomeStreet s stock price had significant upside potential. The Simplicity board concluded that HomeStreet s proposal was advantageous to Simplicity s stockholders because (i) Simplicity stockholders would own 33% of the pro forma combined entity, which would have approximately $4.0 billion in consolidated assets, and (ii) based on HomeStreet s strategic plan and the benefits of the combination, the board believed that the long term value of HomeStreet s common stock would be superior to the value of Simplicity s common stock if Simplicity continued as a stand-alone company. Simplicity s board of directors authorized its President and Chief Executive Officer to sign the nonbinding letter of intent as long as the exclusivity period was reduced from the proposed 60 days to 45 days. HomeStreet agreed to the modification and the non-binding letter of intent was signed on September 8, 2014.

From September 10 until September 14, 2014, HomeStreet conducted further due diligence on Simplicity, including on-site due diligence of Simplicity s loan portfolio, branch locations and other matters as well as interviews of senior management.

HomeStreet s counsel, DWT, circulated a draft of the merger agreement on September 12, 2014. The merger agreement introduced the concept of a cap and collar and set the termination fee at 4% of the transaction value at the time of any related termination. As proposed by HomeStreet, the cap and collar would set a range in which the value of the merger consideration would remain fixed. If the value of the merger consideration exceeded the cap, the exchange ratio would be reduced. If the value of the merger consideration fell below the collar, the exchange ratio would be increased or Simplicity could terminate the merger agreement. HomeStreet indicated that the cap and collar were essential terms in order for it to enter into a merger agreement with Simplicity. Simplicity s board likewise believed that a collar was an important term to protect Simplicity s stockholders in the event of a significant decline in the market price of HomeStreet s stock. Simplicity authorized KBW to have further discussions with MJCP regarding the range of the cap and collar.

On September 17, 2014, DWT received comments from Simplicity s counsel, Luse Gorman, on the draft of the merger agreement. These comments focused primarily on protecting each party against substantial changes in HomeStreet s stock price between signing and closing; making the parties representations, warranties and operating covenants parallel; providing for indemnification and insurance for Simplicity s directors and executive officers; making certain provisions for employee benefits for Simplicity s employees, ESOP participants, and holders of Simplicity stock options and restricted stock; limiting parties respective operating covenants; limiting certain aspects of HomeStreet s information rights during the period between signing and closing; suggesting a modification of the termination fee provisions (including fixing the termination fee at 4% of the value of the transaction on the date of signing of the merger agreement); and limiting the closing conditions contained in the initial draft.

On September 18, 2014, at a special meeting, the Simplicity board of directors met with KBW and Luse Gorman to discuss the initial draft of the merger agreement and how a cap and collar could work in this transaction. KBW informed the board that HomeStreet had indicated that it would propose in its next draft of the merger agreement that if HomeStreet s per share price declined to below \$15.00 per share, HomeStreet would be required to increase the exchange ratio so that the value of the merger consideration would be equivalent to \$15.00 per share, or if it did not do so, Simplicity could terminate the merger agreement. HomeStreet would also impose a cap of \$20.00 per share and if HomeStreet s price per share was to exceed \$20.00 per share, HomeStreet would decrease the exchange ratio so that the value of the merger consideration would not exceed \$20.00 per share. After discussion in consultation with KBW and Luse Gorman, Simplicity s board accepted the proposed adjustments to the exchange ratio. The board believed that the range was reasonable, protecting Simplicity stockholders in the event of a significant decline in HomeStreet stock price, while allowing Simplicity stockholders to realize additional value upon an increase in the trading price of HomeStreet s stock.

The parties and their respective counsel and financial advisors met in Seattle on September 22 and 23, 2014 to resolve all remaining open items, including reaching agreement that the 4% termination fee would be calculated based on the estimated transaction price at the time of signing, using a HomeStreet share value calculated based on the arithmetical average of the closing price of HomeStreet common stock as reported by Nasdaq for the 10 trading days up to but excluding the fifth trading day prior to signing the merger agreement. HomeStreet s counsel thereafter circulated a revised draft of the merger agreement on September 24 that resolved all material issues. Also during this period, Simplicity s senior management with assistance from Luse Gorman completed their on site reverse due diligence on HomeStreet, including in-person interviews with members of HomeStreet s senior management. KBW also participated in the interviews of HomeStreet s senior management and reviewed financial information concerning the business and operations of HomeStreet made available by HomeStreet.

On September 25, 2014, HomeStreet s board of directors met to consider the proposed merger agreement, received the opinion of MJCP that the transaction was fair, from a financial point of view, to HomeStreet and its shareholders, and discussed the proposed transaction with management and its counsel. DWT advised the HomeStreet board of directors of its fiduciary duties relative to the proposed merger and other risks associated with the transaction, including litigation risks. After deliberations, HomeStreet s board approved the merger agreement on September 25, 2014.

On September 27, 2014, the Simplicity board of directors met at a special meeting to consider the merger agreement. The board heard presentations by Simplicity management and Luse Gorman regarding the positive results of reverse due diligence and the terms and conditions of the merger agreement and related ancillary documents. Also at this meeting, KBW reviewed the financial aspects of the proposed merger and rendered an opinion to the Simplicity board to the effect that, as of that date and subject to the procedures followed, assumptions made, matters considered, and qualifications and limitations on the review undertaken by KBW as set forth in its opinion, the exchange ratio in the proposed merger was fair, from a financial point of view, to the holders of Simplicity common stock. Following the presentations, the board of directors engaged in discussions about the proposed transaction, the proposed merger agreement and the effect of the transaction on the customers and employees of Simplicity. After further reviewing the consideration per share offered by HomeStreet and after giving consideration to the other factors described under Background and Reasons for the Merger Reasons of

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Simplicity for the Merger,   the members of Simplicity s board of directors unanimously voted to approve the merger agreement. The parties executed and delivered the merger agreement and the ancillary documents on September 27, 2014.

The transaction was announced after the close of the stock market on the afternoon of September 29, 2014.

Reasons of Simplicity for the Merger

Simplicity s board of directors believes that the merger is in the best interests of Simplicity and its stockholders. Accordingly, Simplicity s board of directors has unanimously approved the merger agreement and recommends that stockholders vote **FOR** the approval of the merger agreement. In reaching this conclusion, Simplicity s board of directors consulted with its legal counsel with respect to its legal duties and the terms of the merger agreement. The Simplicity board of directors consulted with KBW with respect to the financial aspects of the transaction, and with senior management regarding, among other things, operational matters concerning the integrated institution.

The following discussion of the information and factors considered by the Simplicity board of directors is not intended to be exhaustive. It does, however, include all material factors considered by the board of directors. In reaching this decision to approve the merger, the Simplicity board of directors considered the following:

- the business strategy and strategic plan of Simplicity, its prospects for the future and its projected financial results;

- the current regulatory environment and its effect on community banks like Simplicity Bank. Increasing regulatory requirements have made it difficult for community banks to manage expenses and maintain profitability. The Simplicity board of directors believe that their stockholders will be better served by converting their stock into ownership of a larger institution which could spread these compliance and operating costs over a larger base of earning assets;

- the belief that the consideration offered by HomeStreet exceeds the value that Simplicity could reasonably expect to achieve in the near future as a stand-alone entity;

- Simplicity s management faces significant challenges to grow Simplicity s franchise and enhance stockholder value given current market conditions, interest rate pressures and the intense competition for loans and deposits;

- the merger with HomeStreet was the result of a broad solicitation process conducted by Simplicity with the assistance of KBW;

- the ability of HomeStreet to pay the merger consideration and the potential long-term value of HomeStreet s currency;

the ability of HomeStreet to execute a merger transaction from a financial and regulatory perspective and its recent history of being able to successfully integrate merged institutions into its existing franchise;

the fact that 100% of the merger consideration would be paid in HomeStreet common stock, thereby making the transaction a tax-free exchange and enabling Simplicity stockholders to participate in growth opportunities of the combined company;

the opinion, dated September 27, 2014, of KBW to the Simplicity board of directors as to the fairness, from a financial point of view and as of the date of the opinion, to the holders of Simplicity common stock of the exchange ratio in the proposed merger, as more fully described below under Opinion of Simplicity s Financial Advisor;

the terms of the merger agreement, including the representations and warranties of the parties, the covenants, the consideration and the benefits to Simplicity s employees;

the likelihood of expeditiously obtaining the necessary regulatory approval without unusual or burdensome conditions;

the similar culture of customer service and focus on small to medium sized businesses and retail customers shared by HomeStreet and Simplicity, and the fact that Simplicity customers would benefit from the higher lending limit, larger branch network and more diverse products offered by the combined entity;

the anticipated effect of the acquisition on Simplicity s employees (including the fact that HomeStreet anticipates offering employment to most of the employees of Simplicity following the consummation of the merger and that Simplicity employees who do not continue as employees of HomeStreet will be entitled to severance benefits); and

the effect on Simplicity s customers and the communities served by Simplicity.

All business combinations, including the merger, also include certain risks and disadvantages. The material potential risks and disadvantages to Simplicity stockholders identified by Simplicity s board of directors and management include the following matters:

there can be no assurance that the combined company will attain the type of revenue enhancements and cost savings necessary to cause the trading markets to consider the transaction a success, thereby increasing the value of HomeStreet stock received by the stockholders of Simplicity;

since the exchange ratio is fixed only between the share prices of $15 and $20 of HomeStreet common stock, Simplicity stockholders could receive less value if the price of HomeStreet common stock declines prior to the closing to less than $15 per share (assuming HomeStreet did not increase the exchange ratio and Simplicity does not terminate the merger agreement) and Simplicity stockholders will not receive more value if the price of HomeStreet common stock increases prior to the closing to greater than $20 per share;

minimum financial condition closing requirements as of the month end prior to the closing of the merger that require Simplicity Bank total deposits (excluding broker deposits) to be not less than $575 million and Simplicity s tangible book value to be not less than $125 million;

the fact that the termination fee provided for in the merger agreement and certain other provisions of the merger agreement might discourage third parties from seeking to acquire Simplicity, in light of the fact that HomeStreet was unwilling to enter into the merger agreement absent such provisions; and

the fact that certain members of management of Simplicity and the board of directors might have interests which are in addition to those interests as stockholders of Simplicity.

In reaching the determination to approve the merger agreement, the Simplicity board of directors did not quantify or otherwise attempt to assign any relative weight to the various factors it considered, and individual directors may have viewed certain factors more positively or negatively than others. In addition, as in any business combination, there can be no assurances that the benefits of the merger perceived by the Simplicity board of directors and described above will be realized or will outweigh the risks or uncertainties.

SIMPLICITY S BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT THE STOCKHOLDERS OF SIMPLICITY APPROVE THE MERGER AGREEMENT.

Reasons of HomeStreet for the Merger

HomeStreet s management and board of directors believes that the merger will be beneficial for the company and its shareholders by increasing HomeStreet s market presence in Southern California while improving its capital position, all of which is expected to increase HomeStreet s enterprise value.

As part of its strategic growth plan, HomeStreet has been seeking to establish a retail deposit presence for HomeStreet Bank in certain areas in California and to increase its lending business in key areas of those markets.

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HomeStreet Bank does not currently have any retail bank branches in California, and HomeStreet s board and management believe that acquiring Simplicity Bank s seven Southern California branches will give HomeStreet Bank an attractive foothold for retail deposits as an attractive funding source. Management also believes that these operations would complement HomeStreet s eight existing lending offices in that region.

Management also believes the combination will enhance HomeStreet s earnings diversification and provide opportunities to enhance revenue as a result of higher lending limits and expanded products and services. The transaction is expected to significantly increase HomeStreet and HomeStreet Bank s tangible common equity, affording HomeStreet additional capital to support its growth strategy. In addition, management believes that consolidating support operations will lead to meaningful operational efficiencies for the combined entities, thus reducing non-interest expense. The combination also provides a sizeable entry point for entry into a retail banking presence in California that should provide numerous opportunities for additional growth.

HomeStreet has been seeking to enter the Southern California retail banking market in order to access to the large, dense population base in that region. Key members of HomeStreet s executive team are very familiar with the Los Angeles market and believe that Simplicity s markets will assimilate well with HomeStreet s business model. Simplicity s primary market area includes a significant middle-market consumer base that will provide a larger target audience for HomeStreet s existing products and services. HomeStreet believes that Simplicity s customer base is especially attractive because of the historic affinity relationship with employees and associates of Kaiser Permanente.

In addition, HomeStreet found the terms of the merger, including the ability to use stock as consideration for the transaction, the expected price to be paid for the transaction, and the anticipated internal rate of return, to be attractive and in line with HomeStreet s strategic growth plan goals.

Opinion of Simplicity s Financial Advisor

Simplicity engaged Keefe, Bruyette & Woods, Inc. to render financial advisory and investment banking services to Simplicity, including an opinion to the Simplicity board of directors as to the fairness, from a financial point of view, to the holders of Simplicity common stock of the exchange ratio in the proposed merger of Simplicity with and into HomeStreet. Simplicity selected KBW because KBW is a nationally recognized investment banking firm with substantial experience in transactions similar to the merger. As part of its investment banking business, KBW is continually engaged in the valuation of financial services businesses and their securities in connection with mergers and acquisitions.

As part of its engagement, representatives of KBW attended the meeting of the Simplicity board held on September 27, 2014, at which the Simplicity board evaluated the proposed merger. At this meeting, KBW reviewed the financial aspects of the proposed merger and rendered an opinion to the effect that, as of such date and subject to the procedures followed, assumptions made, matters considered, and qualifications and limitations on the review undertaken by KBW as set forth in such opinion, the exchange ratio in the proposed merger was fair, from a financial point of view, to the holders of Simplicity common stock. The Simplicity board approved the merger agreement at this meeting.

The description of the opinion set forth herein is qualified in its entirety by reference to the full text of the opinion, which is attached as Annex D to this document and is incorporated herein by reference, and describes the procedures followed, assumptions made, matters considered, and qualifications and limitations on the review undertaken by KBW in preparing the opinion.

KBW s opinion speaks only as of the date of the opinion. The opinion was for the information of, and was directed to, the Simplicity board (in its capacity as such) in connection with its consideration of the financial terms of the merger. The opinion addressed only the fairness, from a financial point of view, of the exchange ratio in the merger to the holders of Simplicity common stock. It did not address the

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underlying business decision of Simplicity to engage in the merger or enter into the merger agreement or constitute a recommendation to the Simplicity board in connection with the merger, and it does not constitute a recommendation to any holder of Simplicity common stock or stockholder of any other entity as to how to vote in connection with the merger or any other matter, nor does it constitute a recommendation on whether or not any such stockholder should enter into a voting, stockholders or affiliates agreement with respect to the merger or exercise any dissenters or appraisal rights that may be available to such stockholder.

KBW s opinion was reviewed and approved by KBW s Fairness Opinion Committee in conformity with its policies and procedures established under the requirements of Rule 5150 of the Financial Industry Regulatory Authority.

In connection with the opinion, KBW reviewed, analyzed and relied upon material bearing upon the financial and operating condition of Simplicity and HomeStreet and the merger, including, among other things:

- a draft dated September 25, 2014 of the merger agreement (the most recent draft made available to KBW);
- the audited financial statements and Annual Reports on Form 10-K for the three fiscal years ended June 30, 2014 of Simplicity;
- the audited financial statements and Annual Reports on Form 10-K for the three fiscal years ended December 31, 2013 of HomeStreet;
- the unaudited financial statements and quarterly reports on Form 10-Q for quarters ended March 31, 2014 and June 30, 2014 of HomeStreet;
- certain other interim reports and other communications of Simplicity and HomeStreet to their respective stockholders; and
- other financial information concerning the businesses and operations of Simplicity and HomeStreet furnished to KBW by Simplicity and HomeStreet or which KBW was otherwise directed to use for purposes of KBW s analyses.

KBW s consideration of financial information and other factors that it deemed appropriate under the circumstances or relevant to its analyses included, among other things, the following:

- the historical and current financial position and results of operations of Simplicity and HomeStreet;
- the assets and liabilities of Simplicity and HomeStreet;

- the nature and terms of certain other merger transactions and business combinations in the banking industry;

- a comparison of certain financial and stock market information of Simplicity and HomeStreet with similar information for certain other companies the securities of which are publicly traded;

- financial and operating forecasts and projections of Simplicity that were prepared by, and provided to KBW and discussed with KBW by, Simplicity management and that were used and relied upon by KBW at the direction of such management with the consent of the Simplicity board; and

- financial and operating forecasts and projections of HomeStreet and estimates regarding certain pro forma financial effects of the merger on HomeStreet (including, without limitation, the cost savings and related expenses expected to result from the merger), that were prepared by, and provided to KBW and discussed with KBW by, HomeStreet management and that were used and relied upon by KBW at the direction of such management with the consent of the Simplicity board.

KBW also performed such other studies and analyses as it considered appropriate and took into account its assessment of general economic, market and financial conditions and its experience in other transactions, as well as its experience in securities valuation and knowledge of the banking industry generally. KBW also held discussions with senior management of Simplicity and HomeStreet regarding the past and current business operations, regulatory relations, financial condition and future prospects of their respective companies and such other matters as KBW deemed relevant to its inquiry. In addition, KBW considered the results of the efforts undertaken by Simplicity, with KBW s assistance, to solicit indications of interest from third parties regarding a potential transaction with Simplicity.

In conducting its review and arriving at its opinion, KBW relied upon and assumed the accuracy and completeness of all of the financial and other information provided to it or that was publicly available and KBW did not independently verify the accuracy or completeness of any such information or assume any responsibility or liability for such verification, accuracy or completeness. KBW relied upon the respective managements of Simplicity and HomeStreet as to the reasonableness and achievability of the financial and operating forecasts and projections of Simplicity and HomeStreet (and the assumptions and bases therefor) that were prepared by, and provided to KBW and discussed with KBW by, such managements. KBW assumed, with the consent of Simplicity, that such forecasts and projections were reasonably prepared on a basis reflecting the best currently available estimates and judgments of such managements and that such forecasts and projections would be realized in the amounts and in the time periods estimated by such managements. KBW further relied upon HomeStreet management as to the reasonableness and achievability of the estimates regarding certain pro forma financial effects of the merger on HomeStreet (and the assumptions and bases therefor, including, without limitation, the cost savings and related expenses expected to result from the merger) that were prepared by, and provided to KBW and that were discussed with KBW by, such management. KBW assumed, with the consent of Simplicity, that all such estimates were reasonably prepared on a basis reflecting the best currently available estimates and judgments of such management and that such estimates would be realized in the amounts and in the time periods estimated by such management.

It is understood that the forecasts, projections and estimates of Simplicity and HomeStreet provided to KBW were not prepared with the expectation of public disclosure, that all such information was based on numerous variables and assumptions that are inherently uncertain, including, without limitation, factors related to general economic and competitive conditions and that, accordingly, actual results could vary significantly from those set forth in such forecasts, projections and estimates. KBW assumed, based on discussions with the respective managements of Simplicity and HomeStreet, that such forecasts, projections and estimates of Simplicity and HomeStreet referred to above, provided a reasonable basis upon which KBW could form its opinion and KBW expressed no view as to any such information or the assumptions or bases therefor. KBW relied on all such information without independent verification or analysis and did not in any respect assume any responsibility or liability for the accuracy or completeness thereof.

KBW also assumed that there were no material changes in the assets, liabilities, financial condition, results of operations, business or prospects of either Simplicity or HomeStreet since the date of the last financial statements of each such entity that were made available to KBW. KBW is not an expert in the independent verification of the adequacy of allowances for loan losses and KBW assumed, without independent verification and with Simplicity s consent, that the aggregate allowances for loan losses for Simplicity and HomeStreet were adequate to cover such losses. In rendering its opinion, KBW did not make or obtain any evaluations or appraisals or physical inspection of the property, assets or liabilities (contingent or otherwise) of Simplicity or HomeStreet, the collateral securing any of such assets or liabilities, or the collectability of any such assets, nor did KBW examine any individual loan or credit files, nor did it evaluate the solvency, financial capability or fair value of Simplicity or HomeStreet under any state or federal laws, including those relating to bankruptcy, insolvency or other matters. Estimates of values of companies and assets do not purport to be appraisals or necessarily reflect the prices at which companies or assets may actually be sold. Because such estimates are inherently subject to uncertainty, KBW assumed no responsibility or liability for their accuracy.

KBW assumed that, in all respects material to its analyses:

the merger and any related transactions (including the subsidiary bank merger) would be completed substantially in accordance with the terms set forth in the merger agreement (the final terms of which

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KBW assumed would not differ in any respect material to KBW s analyses from the draft reviewed by KBW) with no adjustments to the exchange ratio or additional forms of consideration;

the representations and warranties of each party in the merger agreement and in all related documents and instruments referred to in the merger agreement were true and correct;

each party to the merger agreement and all related documents would perform all of the covenants and agreements required to be performed by such party under such documents;

there are no factors that would delay or subject to any adverse conditions, any necessary regulatory or governmental approval for the merger or any related transaction and that all conditions to the completion of the merger and any related transaction would be satisfied without any waivers or modifications to the merger agreement; and

in the course of obtaining the necessary regulatory, contractual, or other consents or approvals for the merger and any related transaction, no restrictions, including any divestiture requirements, termination or other payments or amendments or modifications, would be imposed that would have a material adverse effect on the future results of operations or financial condition of Simplicity, HomeStreet or the combined entity or the contemplated benefits of the merger, including the cost savings and related expenses expected to result from the merger.

KBW assumed that the merger would be consummated in a manner that complied with the applicable provisions of the Securities Act of 1933, as amended, the Securities Exchange Act of 1934, as amended, and all other applicable federal and state statutes, rules and regulations. KBW further assumed that Simplicity relied upon the advice of its counsel, independent accountants and other advisors (other than KBW) as to all legal, financial reporting, tax, accounting and regulatory matters with respect to Simplicity, HomeStreet, the merger, any related transaction (including the subsidiary bank merger) and the merger agreement. KBW did not provide advice with respect to any such matters.

KBW s opinion addressed only the fairness, from a financial point of view, as of the date of such opinion, of the exchange ratio in the merger to the holders of Simplicity common stock. KBW expressed no view or opinion as to any terms or other aspects of the merger or any related transaction, including without limitation, the form or structure of the merger or any related transaction, any consequences of the merger to Simplicity, its stockholders, creditors or otherwise, or any terms, aspects or implications of any voting, support, stockholder or other agreements, arrangements or understandings contemplated or entered into in connection with the merger or otherwise. KBW s opinion was necessarily based upon conditions as they existed and could be evaluated on the date of such opinion and the information made available to KBW through such date. Developments subsequent to the date of KBW s opinion may have affected, and may affect, the conclusion reached in KBW s opinion and KBW did not and does not have an obligation to update, revise or reaffirm its opinion. KBW s opinion did not address, and KBW expressed no view or opinion with respect to:

the underlying business decision of Simplicity to engage in the merger or enter into the merger agreement;

the relative merits of the merger as compared to any strategic alternatives that are, have been or may be available to or contemplated by Simplicity or the Simplicity board;

the fairness of the amount or nature of any compensation to any of Simplicity s officers, directors or employees, or any class of such persons, relative to any compensation to the holders of Simplicity common stock;

the effect of the merger or any related transaction on, or the fairness of the consideration to be received by, holders of any class of securities of Simplicity, other than the Simplicity common stock (solely with respect to the exchange ratio, as described in KBW s opinion, and not relative to the consideration to be received by any other class of securities), or any class of securities of HomeStreet or any other party to any transaction contemplated by the merger agreement;

any adjustment (as provided in the merger agreement) to the exchange ratio in the merger assumed for purposes of KBW s opinion;

the actual value of the HomeStreet common stock to be issued in the merger;

the prices, trading range or volume at which Simplicity common stock or HomeStreet common stock would trade following the public announcement of the merger or the prices, trading range or volume at which HomeStreet common stock would trade following consummation of the merger;

any advice or opinions provided by any other advisor to any of the parties to the merger or any other transaction contemplated by the merger agreement; or

any legal, regulatory, accounting, tax or similar matters relating to Simplicity, HomeStreet, their respective stockholders, or relating to or arising out of or as a consequence of the merger or any related transaction (including the subsidiary bank merger), including whether or not the merger would qualify as a tax-free reorganization for United States federal income tax purposes.

In performing its analyses, KBW made numerous assumptions with respect to industry performance, general business, economic, market and financial conditions and other matters, which are beyond the control of KBW, Simplicity and HomeStreet. Any estimates contained in the analyses performed by KBW are not necessarily indicative of actual values or future results, which may be significantly more or less favorable than suggested by these analyses. Additionally, estimates of the value of businesses or securities do not purport to be appraisals or to reflect the prices at which such businesses or securities might actually be sold. Accordingly, these analyses and estimates are inherently subject to substantial uncertainty. In addition, the KBW opinion was among several factors taken into consideration by the Simplicity board in making its determination to approve the merger agreement and the merger. Consequently, the analyses described below should not be viewed as determinative of the decision of the Simplicity board with respect to the fairness of the exchange ratio. The type and amount of consideration payable in the merger were determined through negotiation between Simplicity and HomeStreet and the decision to enter into the merger agreement was solely that of the Simplicity board.

The following is a summary of the material financial analyses presented by KBW to the Simplicity board in connection with its opinion. The summary is not a complete description of the financial analyses underlying the opinion or the presentation made by KBW to the Simplicity board, but summarizes the material analyses performed and presented in connection with such opinion. The preparation of a fairness opinion is a complex analytic process involving various determinations as to appropriate and relevant methods of financial analysis and the application of those methods to the particular circumstances. Therefore, a fairness opinion is not readily susceptible to partial analysis or summary description. In arriving at its opinion, KBW did not attribute any particular weight to any analysis or factor that it considered, but rather made qualitative judgments as to the significance and relevance of each analysis and factor. The financial analyses summarized below include information presented in tabular format. Accordingly, KBW believes that its analyses and the summary of its analyses must be considered as a whole and that selecting portions of its analyses and factors or focusing on the information presented below in tabular format, without considering all analyses and factors or the full narrative description of the financial analyses, including the methodologies and assumptions underlying the analyses, could create a misleading or incomplete view of the process underlying its analyses and opinion. The tables alone do not constitute a complete description of the financial analyses. For purposes of the financial analyses described below, KBW utilized an implied transaction value for the proposed merger of $17.88 per share of Simplicity common stock based on the exchange ratio in the merger and the closing price of HomeStreet common stock on September 24, 2014. In addition to the financial analyses described below, KBW reviewed with the Simplicity board for informational purposes, among other things, implied transaction statistics for the proposed merger of 25.8x using the 2014 earnings per share (EPS) estimate for Simplicity provided to KBW by Simplicity management and 28.7x using the 2015 EPS estimate for Simplicity provided to KBW by Simplicity management, in each case calendarized and based on the implied transaction value for the proposed merger of $17.88 per share of Simplicity common stock.

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Selected Companies Analyses. KBW performed selected companies analyses of Simplicity and HomeStreet as described below. To perform these analyses, KBW used last-twelve-months (LTM) profitability data and other financial information as of or for the period ended June 30, 2014 and market price information as of September 24, 2014. KBW also used 2014 and 2015 earnings consensus street estimates for the selected companies, to the extent publicly available, taken from a nationally recognized earnings estimate consolidator and financial forecasts and projections relating to the earnings of Simplicity and HomeStreet provided to KBW by Simplicity and HomeStreet managements, respectively, which were calendarized in the case of Simplicity. Certain financial data prepared by KBW, and as referenced in the tables presented below, may not correspond to the data presented in Simplicity s and HomeStreet s historical financial statements, or the data presented under the section Opinion of HomeStreet s Financial Advisor, as a result of the different periods, assumptions and methods used by KBW to compute the financial data presented. No company used as a comparison in the following selected companies analyses is identical to Simplicity or HomeStreet. Accordingly, an analysis of these results is not mathematical. Rather, it involves complex considerations and judgments concerning differences in financial and operating characteristics of the companies involved.

Simplicity Selected Companies Analysis 2nd Step Completed Conversion Peers. Using publicly available information, KBW compared the financial performance, financial condition and market performance of Simplicity to 15 selected publicly traded thrifts that had completed a 2nd step mutual to stock conversion since 2009 and have total assets between $500 million and $2.0 billion. Merger targets were excluded from the selected companies.

The selected companies included:

Waterstone Financial, Inc.	Atlantic Coast Financial Corporation
Heritage Financial Group, Inc.	Cheviot Financial Corp.
SI Financial Group, Inc.	Malvern Bancorp, Inc.
Clifton Bancorp Inc.	Eagle Bancorp Montana, Inc.
Fox Chase Bancorp, Inc.	La Porte Bancorp, Inc.
Charter Financial Corporation	Naugatuck Valley Financial Corporation
Ocean Shore Holding Co.	Prudential Bancorp, Inc.
Oneida Financial Corp.	

KBW s analysis showed the following concerning the financial performance and financial condition of Simplicity and the selected companies:

		Selected Companies			
	Simplicity	Top Quartile	Median	Bottom Quartile	Average
Operating Return on Assets	0.62%	0.60%	0.54%	0.19%	0.09%

Operating Return on Equity	3.78%	4.49%	2.74%	1.29%	-0.02%
Net Interest Margin	3.28%	3.20%	3.08%	2.62%	3.05%
Efficiency Ratio	76.09%	73.26%	82.19%	87.28%	81.43%
Tangible Common Equity/Tangible Assets	15.19%	19.58%	13.26%	10.06%	15.23%
Tier 1 Capital Ratio	20.89%	27.42%	18.71%	16.78%	24.13%
Total Capital Ratio	21.66%	28.38%	19.68%	17.79%	25.11%
Loans/Deposits	110.91%	99.69%	88.25%	80.92%	90.59%
Loan Loss Reserves/Loans	0.63%	1.57%	0.97%	0.69%	1.09%
Texas Ratio	12.73%	5.91%	7.34%	13.85%	10.54%
Nonperforming Assets/Assets	1.99%	0.79%	1.04%	1.97%	1.56%
Net Charge-Offs/Average Loans	0.05%	0.05%	0.14%	0.54%	0.49%

Note: Texas ratio equal to (Nonperforming Assets plus Loans 90 Days Past Due) / (Tangible Common Equity plus Loan Loss Reserves) adjusted for covered loans.

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KBW s analysis also showed the following concerning the market performance of Simplicity and, to the extent publicly available, the selected companies (excluding the impact of certain selected company LTM, 2014 and 2015 EPS multiples considered to be not meaningful because they were either below 0.0x or greater than 30.0x):

		Selected Companies			
	Simplicity	Top Quartile	Median	Bottom Quartile	Average
Stock Price/Book Value per Share	0.90x	0.95x	0.91x	0.88x	0.94x
Stock Price/Tangible Book Value Per Share	0.93x	1.04x	0.94x	0.90x	1.00x
Stock Price/LTM EPS	23.19x	20.14x	18.15x	16.07x	19.29x
Stock Price/2014 EPS	24.20x	21.33x	16.62x	15.21x	19.00x
Stock Price/2015 EPS	26.84x	19.09x	16.83x	15.11x	16.44x
Core Deposit Premium	-1.90%	0.73%	-0.94%	-3.20%	-1.14%
1-Year Price Change	8.44%	11.60%	1.50%	-2.92%	4.63%
YTD Price Change	3.34%	7.06%	2.00%	-2.53%	3.71%
Dividend Yield	2.16%	2.35%	1.68%	1.03%	1.67%
LTM Dividend Payout	45.83%	66.73%	52.42%	25.88%	46.32%

Simplicity Selected Companies Analysis West Region Banks & Thrifts. Using publicly available information, KBW compared the financial performance, financial condition and market performance of Simplicity to 17 selected publicly traded banks and thrifts located in the Western United States with total assets between $500 million and $1.5 billion, nonperforming assets / assets ratios less than 3.0%, and tangible common equity / tangible assets ratios greater than 9.0%. Merger targets were excluded from the selected companies.

The selected companies included:

Pacific Continental Corporation	Pacific City Financial Corporation
Heritage Commerce Corp	Oak Valley Bancorp
CU Bancorp	Commonwealth Business Bank
Northrim BanCorp, Inc.	Premier Valley Bank
Cashmere Valley Bank	Security California Bancorp
River City Bank	Citizens Bancorp
Provident Financial Holdings, Inc.	Plaza Bank
Malaga Financial Corporation	Bay Commercial Bank
FNB Bancorp	

KBW s analysis showed the following concerning the financial performance and financial condition of Simplicity and the selected companies:

		Selected Companies			
	Simplicity	Top Quartile	Median	Bottom Quartile	Average
Operating Return on Assets	0.62%	1.20%	1.02%	0.89%	1.12%
Operating Return on Equity	3.78%	10.86%	8.65%	7.46%	10.01%
Net Interest Margin	3.28%	4.13%	3.83%	3.69%	3.82%
Efficiency Ratio	76.09%	57.08%	66.56%	69.56%	63.16%
Tangible Common Equity/Tangible Assets	15.19%	10.98%	10.54%	9.87%	10.50%
Tier 1 Capital Ratio	20.89%	15.84%	13.95%	13.18%	14.63%
Total Capital Ratio	21.66%	16.97%	15.14%	14.36%	15.77%
Loans/Deposits	110.91%	90.94%	78.69%	72.30%	84.05%
Loan Loss Reserves/Loans	0.63%	1.75%	1.57%	1.15%	1.49%
Texas Ratio	12.73%	7.14%	9.35%	12.35%	9.91%
Nonperforming Assets/Assets	1.99%	0.76%	1.08%	1.57%	1.13%
Net Charge-Offs/Average Loans	0.05%	-0.00%	0.02%	0.32%	0.11%

Note: Texas ratio equal to (Nonperforming Assets plus Loans 90 Days Past Due) / (Tangible Common Equity plus Loan Loss Reserves) adjusted for covered loans.

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KBW s analysis also showed the following concerning the market performance of Simplicity and, to the extent publicly available, the selected companies:

		Selected Companies			
	Simplicity	Top Quartile	Median	Bottom Quartile	Average
Stock Price/Book Value per Share	0.90x	1.29x	1.13x	0.99x	1.15x
Stock Price/Tangible Book Value Per Share	0.93x	1.35x	1.22x	0.99x	1.20x
Stock Price/LTM EPS	23.19x	15.56x	13.90x	11.00x	13.87x
Stock Price/2014 EPS	24.20x	22.85x	19.07x	14.30x	19.26x
Stock Price/2015 EPS	26.84x	16.09x	14.50x	13.07x	14.44x
Core Deposit Premium	-1.90%	5.49%	3.31%	-0.12%	2.91%
1-Year Price Change	8.44%	13.64%	9.47%	-1.93%	6.97%
YTD Price Change	3.34%	12.71%	7.84%	2.01%	6.26%
Dividend Yield	2.16%	2.99%	1.57%	0.00%	1.65%
LTM Dividend Payout	45.83%	46.51%	21.39%	0.00%	23.75%

Simplicity Selected Companies Analysis Nationwide Thrifts. Using publicly available information, KBW compared the financial performance, financial condition and market performance of Simplicity to 21 selected publicly traded thrifts with total assets between $500 million and $1.5 billion, nonperforming assets / assets ratios less than 3.0%, and tangible common equity / tangible assets ratios greater than 10.0%. Merger targets were excluded from the selected companies.

The selected companies included:

BankFinancial Corporation	ASB Bancorp, Inc.
SI Financial Group, Inc.	Hampden Bancorp, Inc.
Westfield Financial, Inc.	HMN Financial, Inc.
Home Bancorp, Inc.	Chicopee Bancorp, Inc.
BSB Bancorp, Inc.	Cheviot Financial Corp.
Provident Financial Holdings, Inc.	Malvern Bancorp, Inc.
Fox Chase Bancorp, Inc.	Westbury Bancorp, Inc.
Cape Bancorp, Inc.	La Porte Bancorp, Inc.
Charter Financial Corporation	Naugatuck Valley Financial Corporation
Ocean Shore Holding Co.	Prudential Bancorp, Inc.
Malaga Financial Corporation	

KBW s analysis showed the following concerning the financial performance and financial condition of Simplicity and the selected companies:

		Selected Companies			
	Simplicity	Top Quartile	Median	Bottom Quartile	Average
Operating Return on Assets	0.62%	0.63%	0.50%	0.27%	0.44%

Operating Return on Equity	3.78%	4.69%	2.77%	1.85%	3.30%
Net Interest Margin	3.28%	3.42%	3.13%	2.81%	3.19%
Efficiency Ratio	76.09%	68.08%	80.98%	86.84%	78.34%
Tangible Common Equity/Tangible Assets	15.19%	14.65%	12.42%	11.03%	13.64%
Tier 1 Capital Ratio	20.89%	20.38%	18.01%	16.29%	20.52%
Total Capital Ratio	21.66%	20.86%	19.06%	17.41%	21.55%
Loans/Deposits	110.91%	104.45%	93.03%	85.85%	94.97%
Loan Loss Reserves/Loans	0.63%	1.24%	1.10%	0.85%	1.11%
Texas Ratio	12.73%	7.28%	11.89%	13.07%	11.09%
Nonperforming Assets/Assets	1.99%	1.04%	1.56%	1.98%	1.54%
Net Charge-Offs/Average Loans	0.05%	0.02%	0.13%	0.27%	0.33%

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Note: Texas ratio equal to (Nonperforming Assets plus Loans 90 Days Past Due) / (Tangible Common Equity plus Loan Loss Reserves) adjusted for covered loans.

KBW s analysis also showed the following concerning the market performance of Simplicity and, to the extent publicly available, the selected companies (excluding the impact of certain selected company LTM, 2014 and 2015 EPS multiples considered to be not meaningful because they were either below 0.0x or greater than 30.0x):

		Selected Companies			
	Simplicity	Top Quartile	Median	Bottom Quartile	Average
Stock Price/Book Value per Share	0.90x	1.09x	0.93x	0.91x	0.98x
Stock Price/Tangible Book Value Per Share	0.93x	1.10x	0.94x	0.93x	1.01x
Stock Price/LTM EPS	23.19x	21.28x	17.52x	16.00x	17.36x
Stock Price/2014 EPS	24.20x	21.25x	15.92x	14.34x	16.30x
Stock Price/2015 EPS	26.84x	19.57x	16.86x	14.71x	17.43x
Core Deposit Premium	-1.90%	2.00%	-0.94%	-1.58%	0.04%
1-Year Price Change	8.44%	19.13%	8.33%	-2.05%	9.10%
YTD Price Change	3.34%	15.53%	4.69%	-2.00%	6.77%
Dividend Yield	2.16%	2.53%	1.42%	0.00%	1.44%
LTM Dividend Payout	45.83%	49.03%	32.00%	0.00%	31.95%

HomeStreet Selected Companies Analysis West Region Banks & Thrifts. Using publicly available information, KBW compared the financial performance, financial condition and market performance of HomeStreet to 16 selected publicly traded banks and thrifts located in the Western United States with total assets between $2.0 billion and $5.0 billion and nonperforming assets / assets ratios less than 5.0%. Merger targets were excluded from the selected companies.

The selected companies included:

Westamerica Bancorporation	Heritage Financial Corporation
Banner Corporation	Mechanics Bank
Central Pacific Financial Corp.	First National Bank Alaska
W.T.B. Financial Corporation	Hanmi Financial Corporation
BofI Holding, Inc.	TriCo Bancshares
Opus Bank	1867 Western Financial Corporation
Wilshire Bancorp, Inc.	Cascade Bancorp
Community Bank	Farmers & Merchants Bancorp

KBW s analysis showed the following concerning the financial performance and financial condition of HomeStreet and the selected companies:

		Selected Companies			
	HomeStreet	Top Quartile	Median	Bottom Quartile	Average

Operating Return on Assets	0.42%	1.34%	1.00%	0.71%	1.14%
Operating Return on Equity	4.55%	11.65%	9.35%	6.46%	9.37%
Net Interest Margin	3.43%	4.09%	3.99%	3.59%	3.88%
Efficiency Ratio	91.82%	55.72%	65.95%	68.45%	63.44%
Tangible Common Equity/Tangible Assets	8.49%	11.75%	10.21%	9.20%	10.65%
Tier 1 Capital Ratio	12.00%	15.37%	14.46%	12.80%	14.49%
Total Capital Ratio	12.90%	17.20%	15.53%	14.47%	15.86%
Loans/Deposits	98.62%	93.45%	79.28%	69.26%	80.03%
Loan Loss Reserves/Loans	0.92%	2.29%	1.90%	1.42%	1.83%
Texas Ratio	37.10%	6.06%	10.19%	13.07%	11.07%
Nonperforming Assets/Assets	3.39%	0.85%	1.15%	1.63%	1.27%
Net Charge-Offs/Average Loans	0.13%	-0.00%	0.03%	0.12%	0.05%

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Note: Texas ratio equal to (Nonperforming Assets plus Loans 90 Days Past Due) / (Tangible Common Equity plus Loan Loss Reserves) adjusted for covered loans.

KBW s analysis also showed the following concerning the market performance of HomeStreet and, to the extent publicly available, the selected companies (excluding the impact of certain selected company LTM and 2014 EPS multiples considered to be not meaningful because they were either below 0.0x or greater than 30.0x):

		Selected Companies			
	HomeStreet	Top Quartile	Median	Bottom Quartile	Average
Stock Price/Book Value per Share	0.92x	1.53x	1.22x	1.10x	1.40x
Stock Price/Tangible Book Value Per Share	0.97x	1.70x	1.50x	1.16x	1.58x
Stock Price/LTM EPS	21.54x	18.16x	14.95x	13.25x	15.83x
Stock Price/2014 EPS	9.63x	19.59x	17.63x	14.93x	17.30x
Stock Price/2015 EPS	6.71x	15.39x	14.48x	12.01x	14.53x
Core Deposit Premium	-0.36%	11.80%	6.53%	2.62%	8.26%
1-Year Price Change	-8.59%	11.80%	4.01%	0.30%	5.95%
YTD Price Change	-10.60%	2.69%	-3.22%	-10.93%	-2.63%
Dividend Yield	0.00%	2.69%	2.04%	1.38%	2.54%
LTM Dividend Payout	39.76%	44.42%	29.18%	21.48%	32.18%

Selected Transactions Analyses. KBW performed selected transaction analyses as described below. To perform these analyses, KBW used financial data based on the acquired company s then latest publicly available financial statements prior to the announcement of the acquisition. No company or transaction used as a comparison in the following selected transactions analyses is identical to Simplicity or the proposed merger. Accordingly, an analysis of these results is not mathematical. Rather, it involves complex considerations and judgments concerning differences in financial and operating characteristics of the companies involved.

Selected Transactions Analysis Recent Thrift M&A Transactions. KBW reviewed publicly available information related to 13 selected thrift merger and acquisition transactions announced since January 1, 2013 in which the transaction value was greater than $50 million. Merger of equal transactions were excluded from the selected transactions.

The selected transactions included:

Acquiror	Target
Cape Bancorp, Inc.	Colonial Financial Services, Inc.
Independent Bank Corp.	Peoples Federal Bancshares, Inc.
TowneBank	Franklin Financial Corporation
National Penn Bancshares, Inc.	TF Financial Corporation
Old National Bancorp	LSB Financial Corp.
Southside Bancshares, Inc.	OmniAmerican Bancorp, Inc.
CB Financial Services, Inc.	FedFirst Financial Corporation
F.N.B. Corporation	OBA Financial Services, Inc.
HomeTrust Bancshares, Inc.	Jefferson Bancshares, Inc.

Provident Financial Services, Inc.	Team Capital Bank
First Merchants Corporation	CFS Bancorp, Inc.
SI Financial Group, Inc.	Newport Bancorp, Inc.
F.N.B. Corporation	PVF Capital Corp.

For each selected transaction, KBW derived the ratio of the transaction consideration value per common share paid for the acquired company to the following:

book value per share of the acquired company;

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tangible book value per share of the acquired company; and

LTM EPS of the acquired company.

The resulting transaction ratios for the selected transactions were compared with corresponding transaction ratios for the proposed merger based on the implied transaction value for the proposed merger of $17.88 per share of Simplicity common stock and using historical financial information for Simplicity as of June 30, 2014.

The results of the analysis are set forth in the following table (excluding the impact of certain selected transaction LTM EPS multiples considered to be not meaningful because they were either below 0.0x or greater than 70.0x):

		Selected Transactions			
	Proposed Merger	Top Quartile	Median	Bottom Quartile	Average
Price /Book Value	96.6%	141.4%	122.7%	104.5%	127.2%
Price /Tangible Book Value	99.4%	147.1%	122.7%	106.8%	128.1%
Price/LTM EPS	25.6x	33.4x	25.2x	21.3x	29.7x

Selected Transactions Analysis West Region. KBW reviewed publicly available information related to 22 selected bank and thrift merger and acquisition transactions announced since January 1, 2011 in which the target was located in the Western United States and had assets between $300 million and $2.0 billion. Merger of equal transactions were excluded from the selected transactions.

The selected transactions included:

Acquiror	Target
Banner Corporation	Siuslaw Financial Group, Inc.
Columbia Banking System, Inc.	Intermountain Community Bancorp
CU Bancorp	1st Enterprise Bank
CVB Financial Corp.	American Security Bank
First Interstate BancSystem, Inc.	Mountain West Financial Corp.
TriCo Bancshares	North Valley Bancorp
Cascade Bancorp	Home Federal Bancorp, Inc.
Heritage Financial Corporation	Washington Banking Company
Heritage Oaks Bancorp	Mission Community Bancorp
Wilshire Bancorp, Inc.	Saehan Bancorp
Glacier Bancorp, Inc.	North Cascades Bancshares, Inc.
PacWest Bancorp	First California Financial Group, Inc.
SKBHC Holdings LLC	PremierWest Bancorp
Umpqua Holdings Corporation	Circle Bancorp
First PacTrust Bancorp, Inc.	Private Bank of California
Washington Federal, Inc.	South Valley Bancorp, Inc.
California United Bank	Premier Commercial Bancorp
Sterling Financial Corporation	First Independent Bank
SKBHC Holdings LLC	Viking Financial Services Corporation

First PacTrust Bancorp, Inc.	Beach Business Bank
Opus Bank	RMG Capital Corporation
Opus Bank	Cascade Financial Corporation

For each selected transaction, KBW derived the ratio of the transaction consideration value per common share paid for the acquired company to the following, to the extent publicly available:

- book value per share of the acquired company;
- tangible book value per share of the acquired company; and
- LTM EPS of the acquired company (which, in the case of s-corporations, were tax-effected at 35%).

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The resulting transaction ratios for the selected transactions were compared with corresponding transaction ratios for the proposed merger based on the implied transaction value for the proposed merger of $17.88 per share of Simplicity common stock and using historical financial information for Simplicity as of June 30, 2014.

The results of the analysis are set forth in the following table (excluding the impact of certain selected transaction LTM EPS multiples considered to be not meaningful because they were either below 0.0x or greater than 70.0x):

		Selected Transactions			
	Proposed Merger	Top Quartile	Median	Bottom Quartile	Average
Price/Book Value	96.6%	151.5%	121.9%	103.8%	121.5%
Price/Tangible Book Value	99.4%	153.7%	130.6%	119.1%	128.3%
Price/LTM EPS	25.6x	27.8x	20.4x	16.5x	24.5x

Selected Transactions Analysis Overcapitalized Banks & Thrifts. KBW reviewed publicly available information related to 11 selected bank and thrift merger and acquisition transactions announced since January 1, 2013 in which the target had assets between $300 million and $1.0 billion and a tangible common equity / tangible assets ratio greater than 12.0%. Merger of equal transactions were excluded from the selected transactions.

The selected transactions included:

Acquiror	Target
Independent Bank Corp.	Peoples Federal Bancshares, Inc.
Bank of the Ozarks, Inc.	Intervest Bancshares Corporation
TowneBank	Franklin Financial Corporation
Southside Bancshares, Inc.	OmniAmerican Bancorp, Inc.
CB Financial Services, Inc.	FedFirst Financial Corporation
F.N.B. Corporation	OBA Financial Services, Inc.
CenterState Banks, Inc.	First Southern Bancorp, Inc.
WSFS Financial Corporation	First Wyoming Financial Corporation
Home Bancorp, Inc.	Britton & Koontz Capital Corporation
Cascade Bancorp	Home Federal Bancorp, Inc.
Western Alliance Bancorporation	Centennial Bank

For each selected transaction, KBW derived the ratio of the transaction consideration value per common share paid for the acquired company to the following:

- book value per share of the acquired company;
- tangible book value per share of the acquired company; and
- LTM EPS of the acquired company.

The resulting transaction ratios for the selected transactions were compared with corresponding transaction ratios for the proposed merger based on the implied transaction value for the proposed merger of $17.88 per share of Simplicity common stock and using historical financial information for Simplicity as of June 30, 2014.

The results of the analysis are set forth in the following table (excluding the impact of certain selected transaction LTM EPS multiples considered to be not meaningful because they were either below 0.0x or greater than 70.0x):

		Selected Transactions			
	Proposed Merger	Top Quartile	Median	Bottom Quartile	Average
Price/Book Value	96.6%	131.6%	111.2%	101.3%	115.0%
Price/Tangible Book Value	99.4%	131.6%	112.3%	108.7%	116.7%
Price/LTM EPS	25.6x	35.8x	25.2x	18.4x	29.0x

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Relative Contribution Analysis. KBW analyzed the relative standalone contribution of HomeStreet and Simplicity to various pro forma balance sheet and income statement items and the pro forma market capitalization of the combined entity. This analysis did not include purchase accounting or transaction adjustments. To perform this analysis, KBW used (i) balance sheet data for HomeStreet and Simplicity as of June 30, 2014, (ii) historical earnings data for 2013 and financial forecasts and projections relating to the earnings of HomeStreet and Simplicity provided to KBW by HomeStreet and Simplicity managements, respectively, which were calendarized in the case of Simplicity, and (iii) market price data as of September 24, 2014 consisting of the closing prices of HomeStreet common stock and Simplicity common stock of $17.88 per share and 16.70 per share, respectively. The results of KBW s analysis are set forth in the following table, which also compares the results of KBW s analysis with the implied pro forma ownership percentage of Simplicity stockholders in the combined company based on the exchange ratio in the proposed merger:

	Simplicity Percentage
Total Assets	21.4%
Total Loans	23.4%
Total Deposits	21.3%
Total Common Equity	32.2%
Total Tangible Common Equity	32.7%
2013 Actual Earnings	20.6%
2014 Estimated Earnings(1)	14.8%
2015 Estimated Earnings(1)	9.8%
2016 Estimated Earnings(1)	10.1%
Market Capitalization as of 9/24/2014 close	31.7%
Ownership at 1.000x Exchange Ratio	33.1%

(1) Estimated earnings are prior to cost savings and provision for loan losses elimination.

Pro Forma Financial Impact Analysis. KBW performed a pro forma financial impact analysis that combined projected income statement and balance sheet information of HomeStreet and Simplicity. Using closing balance sheet estimates as of December 31, 2014 for HomeStreet and Simplicity per their respective managements, financial forecasts and projections relating to the earnings of HomeStreet and Simplicity provided by HomeStreet and Simplicity managements, respectively, which were calendarized in the case of Simplicity, and pro forma assumptions (including purchase accounting adjustments, cost savings and related expenses) provided by HomeStreet management, KBW analyzed the potential financial impact of the merger on certain projected financial results. This analysis indicated that the merger could result in dilution to HomeStreet s 2015 and 2016 estimated EPS of 4.3% and 3.0%, respectively and HomeStreet s estimated closing book value per share and closing tangible book value per share as of December 31, 2014 of 5.6% and 6.3%, respectively. Furthermore, the analysis indicated that, pro forma for the proposed merger, each of HomeStreet s tangible common equity to tangible assets ratio, Tier 1 leverage ratio, Tier 1 Risk-Based Capital Ratio and Total Risk-Based Capital Ratio as of December 31, 2014 could be higher. For all of the above analyses, the actual results achieved by HomeStreet following the merger will vary from the projected results, and the variations may be material.

Stand-Alone Discounted Cash Flow Analysis. KBW performed a discounted cash flow analysis to estimate ranges for the implied equity value of Simplicity. In this analysis, KBW used financial forecasts and projections relating to the earnings and assets of Simplicity prepared by and provided to KBW by Simplicity management, and assumed discount rates ranging from 11.0% to 15.0%. In connection with the discounted cash flow analysis, the range of discount rates of 11% to 15% was derived using a capital asset pricing model implied cost of capital calculation. The ranges of values were determined by adding (1) the present value of the estimated free cash flows that Simplicity could generate over the period from fiscal years 2015 to 2019 as a standalone company and (2) the present value of Simplicity s implied terminal value at the end of such period. KBW assumed that Simplicity would maintain a tangible common equity to tangible assets ratio of 8.00% and would retain sufficient earnings to maintain that level. Estimated free cash flows were calculated generally as any portion of estimated earnings in excess of the retained amount assumed. KBW derived implied terminal values using two methodologies, one based on 2020 earnings multiples and the other based on 2019 tangible book value multiples. Using implied terminal values for Simplicity calculated by applying a range of 12.0x to 16.0x estimated 2020 earnings, this discounted cash flow analysis resulted in a range of implied value per Simplicity common share of $14.48 to $17.14. Using implied terminal values for Simplicity calculated by applying a range of 1.00x to 1.40x estimated 2019 tangible book value, this discounted cash flow analysis resulted in a range of implied value per Simplicity common share of $15.27 to $18.80. The discounted cash flow analysis is a widely used valuation methodology, but the results of such methodology are highly dependent on the assumptions that must be made, including asset and earnings growth rates, terminal values, dividend payout rates, and discount rates. The analysis did not purport to be indicative of the actual values or expected values of Simplicity.

Miscellaneous. KBW acted as financial advisor to Simplicity in connection with the proposed merger and did not act as an advisor to or agent of any other person. As part of its investment banking business, KBW is continually engaged in the valuation of securities of banking companies in connection with acquisitions, negotiated underwritings, secondary distributions of listed and unlisted securities, private placements and valuations for various other purposes. As specialists in the securities of banking companies, KBW has experience in, and knowledge of, the valuation of banking enterprises. In the ordinary course of its business as a broker-dealer, KBW may from time to time purchase securities from, and sell securities to, Simplicity and HomeStreet. Further to existing sales and trading relationships between a KBW affiliated broker-dealer and each of Simplicity and HomeStreet, such broker-dealer has from time to time purchased securities from, and sold securities to, Simplicity and HomeStreet. As a market maker in securities, KBW may from time to time have a long or short position in, and buy or sell, debt or equity securities of Simplicity and HomeStreet for its own account and for the accounts of its customers. Any KBW proprietary or employee positions in Simplicity and HomeStreet, as of the date of KBW s opinion, were disclosed to Simplicity.

Pursuant to the KBW engagement agreement, Simplicity agreed to pay KBW a total cash fee equal to 1.40% of the aggregate merger consideration, $250,000 of which became payable to KBW upon the rendering of KBW s opinion and the balance of which is contingent upon the consummation of the merger. Simplicity also agreed to reimburse KBW for reasonable out-of-pocket expenses and disbursements incurred in connection with its retention and to indemnify KBW against certain liabilities relating to or arising out of KBW s engagement or KBW s role in connection therewith. Other than in connection with this present engagement, in the two years preceding the date of its opinion, KBW did not provide investment banking and financial advisory services to Simplicity. In the two years preceding the date of its opinion, KBW did not provide investment banking and financial advisory services to HomeStreet. KBW may in the future provide investment banking and financial advisory services to Simplicity or HomeStreet and receive compensation for such services.

Simplicity s Financial Forecasts

Simplicity does not, as a matter of course, publicly disclose forecasts or internal projections as to its future performance, earnings or other results due to, among other things, the inherent unpredictability of certain underlying assumptions and estimates. However, during the first fiscal quarter of 2015, Simplicity provided to HomeStreet a summary of certain internal financial forecasts prepared in the second fiscal quarter of 2014. Updated internal financial forecasts prepared by Simplicity s management as part of the annual budget process were reviewed by Simplicity s board of directors and KBW. The updated internal financial forecasts were not disclosed to HomeStreet prior to the execution of the merger agreement. The selected financial forecasts described below were not prepared with a view toward public disclosure or compliance with published guidelines of the SEC, the guidelines established by the American Institute of Certified Public Accountants for Prospective Financial Information, or U.S. generally accepted accounting principles, and are included in this joint proxy statement only because they were made available to Simplicity s board of directors and KBW in connection with the proposed merger. Simplicity s independent auditor did not examine or compile any of these estimates or express any conclusion or provide any form of assurance with respect to these estimates.

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The financial forecasts described below are forward-looking statements that are subject to risks and uncertainties that could cause actual results to differ materially from such estimates and should be read with caution. Although presented with numerical specificity, these estimates are based upon a variety of assumptions made by Simplicity s management with respect to, among other things, industry performance, general economic, market, interest rate, and financial conditions, operating and other revenues and expenses, effective tax rates, capital expenditures, working capital and other matters. Some or all of the assumptions may not be realized, and as historical performance suggests, they are inherently subject to significant business, economic and competitive uncertainties and contingencies, all of which are difficult to predict and many of which are beyond the control of Simplicity.

Accordingly, the assumptions made in preparing these estimates may prove to be inaccurate and actual results may differ materially from these estimates. In addition, the forecasts do not take into account any of the expense savings or charges expected to result from the merger or any other matters contemplated by the Merger Agreement.

For these reasons, the description of the financial forecasts in this joint proxy statement should not be regarded as an indication that they are necessarily predictive of actual future events and they should not be relied on as such. No one has made, or makes, any representation regarding these estimates by their inclusion in this joint proxy statement and, except as may be required by applicable securities laws, Simplicity does not intend to update or otherwise revise the projections to reflect circumstances existing after the date when made or to reflect the occurrences of future events even if any or all of the assumptions are shown to be in error.

The following financial projections were prepared by Simplicity s management and were reviewed by the Simplicity board of directors and KBW in connection with the proposed merger (in thousands, except per share data):

	As of and for the year Ended June 30,				
Selected Financial Data	**2015**	**2016**	**2017**	**2018**	**2019**
Total Assets	$ 881,454	$ 892,759	$ 904,473	$ 916,624	$ 929,238
Cash and Investments	93,513	90,492	87,608	84,885	82,342
Loans, net	755,044	769,370	783,968	798,842	813,999
Deposits	667,527	680,878	694,495	708,385	722,553
Borrowings	73,013	74,862	76,732	78,625	80,538
Total Stockholders Equity	140,870	136,975	133,201	129,571	126,103
Net Income[(1)]	4,039	4,627	4,728	4,832	4,939
Earnings Per Share	0.58	0.66	0.68	0.69	0.71
Tangible Assets	877,504	888,809	900,523	912,674	925,288
Tangible Common Equity	136,920	133,025	129,251	125,621	122,153

(1) In addition, a 2020 earnings estimate of approximately $5.2 million was used and relied upon by KBW at the direction of Simplicity s management and with the consent of the Simplicity board in the discounted cash flow analysis performed by KBW in connection with its opinion. This estimate, which was derived from the above projections utilizing an assumed earnings growth rate of 5%, was calculated solely for purposes of the discounted cash flow analysis in connection with KBW s opinion, and none of HomeStreet, Simplicity and KBW assumes any responsibility for any use of such estimate, or reliance on such estimate, for any other purpose.

Opinion of HomeStreet s Financial Advisor

MJ Capital Partners, LLC, or MJCP, has delivered to HomeStreet s Board of Directors its opinion that, based upon and subject to the various considerations set forth in its written opinion dated September 25, 2014, the consideration is fair to HomeStreet and its shareholders, from a financial point of view, as of such date. In

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requesting MJCP s opinion, no limitations were imposed by HomeStreet upon MJCP with respect to the investigations made or procedures followed by it in rendering its opinion. The full text of the opinion of MJCP, dated September 25, 2014, which describes the procedures followed, assumptions made, matters considered and limitations on the review undertaken, is attached hereto as Annex E. HomeStreet shareholders are urged to read this opinion in its entirety before deciding whether to vote on the approval of the issuance of HomeStreet common stock to be used as merger consideration.

MJCP is a recognized investment banking firm and, as part of its investment banking business, is regularly engaged in the valuation of financial institutions in connection with mergers and acquisitions, private placements and valuations for other purposes. As a specialist in securities of financial institutions, MJCP has experience in, and knowledge of, banks, thrifts and bank and thrift holding companies. HomeStreet s board of directors selected MJCP to act as its financial advisor in connection with the merger on the basis of the firm s reputation and expertise in transactions such as the merger.

MJCP s opinion is directed only to the fairness to HomeStreet, from a financial point of view, of the merger consideration to be paid in the merger by HomeStreet, and does not address the underlying business decision of HomeStreet to engage in the merger, the relative merits of the merger as compared to any other alternative business strategies that might exist for HomeStreet or the effect of any other transaction in which HomeStreet might engage. In addition, MJCP s opinion does not constitute a recommendation to any HomeStreet shareholder as to how such shareholder should vote at the Special Meeting. MJCP did not express any opinion as to the fairness of the amount or nature of the compensation to be received in the merger by any officer, director, or employees, or class of such persons, relative to the compensation to be received in the merger by any other shareholder.

The following is a summary of the analyses performed by MJCP in connection with its fairness opinion. Certain analyses were confirmed in a presentation to HomeStreet s Board of Directors by MJCP. The summary set forth below does not purport to be a complete description of either the analyses performed by MJCP in rendering its opinion or the presentation delivered by MJCP to HomeStreet s Board of Directors.

The preparation of a fairness opinion involves various determinations as to the most appropriate and relevant methods of financial analyses and the application of those methods to the particular circumstances. In arriving at its opinion, MJCP did not attribute any particular weight to any analysis and factor considered by it, but rather made qualitative judgments as to the significance and relevance of each analysis and factor. Accordingly, MJCP believes that its analyses and the following summary must be considered as a whole and that selecting portions of its analyses, without considering all factors could create a misleading or incomplete view of the process underlying the analyses set forth in its report to HomeStreet s Board of Directors and its fairness opinion.

In performing its analyses, MJCP made numerous assumptions with respect to industry performance, general business and economic conditions and other matters, many of which are beyond the control of HomeStreet. The analyses performed by MJCP are not necessarily indicative of actual value or actual future results, which may be significantly more or less favorable than suggested by such analyses. Such analyses were prepared solely as part of MJCP s analysis of the fairness of the transaction consideration, from a financial point of view, to HomeStreet and its shareholders. The analyses do not purport to be an appraisal or to reflect the prices at which a company might actually be sold or the prices at which any securities may trade at the present time or at any time in the future. In addition, as described above, MJCP s opinion to HomeStreet s Board of Directors was one of many factors taken into consideration by HomeStreet s Board of Directors in making its determination to approve the merger agreement.

During the course of its engagement, and as a basis for arriving at its opinion, dated September 25, 2014, MJCP, among other things:

- reviewed a draft of the merger agreement and terms of the proposed transaction;

- reviewed certain historical publicly available business and financial information concerning HomeStreet and Simplicity including among other things, quarterly and annual reports filed by the parties with the FDIC, the Federal Reserve and the SEC;

- reviewed certain internal financial statements and other financial and operating data concerning HomeStreet and Simplicity;

- analyzed certain financial projections prepared by the respective managements of HomeStreet and Simplicity;

- held discussions with members of the senior management of HomeStreet and Simplicity for the purpose of reviewing the future prospects of HomeStreet and Simplicity, including financial forecasts related to the respective businesses, earnings, assets, liabilities and the amount and timing of cost savings and revenue enhancements expected to be achieved as a result of the proposed transaction;

- reviewed the pro forma financial impact of the proposed transaction on HomeStreet based on assumptions relating to transaction expenses, purchase accounting adjustments, cost savings and other synergies as determined by the senior management of HomeStreet;

- reviewed a comparison of certain financial information and stock trading information for Simplicity with similar institutions for which information is publicly available;

- reviewed the terms of recent merger and acquisition transactions, to the extent publicly available, involving banks and thrifts that MJCP considered relevant;

- reviewed the current market environment generally and the banking environment in particular; and

- performed such other analyses and considered such other factors as MJCP deemed appropriate.

MJCP also took into account its assessment of general economic, market and financial conditions and its experience in other transactions as well as its knowledge of the banking industry and its general experience in securities valuations.

In performing its review, MJCP relied upon the accuracy and completeness of all of the financial and other information that was available to MJCP from public sources, that was provided to MJCP by HomeStreet and Simplicity or their respective representatives or that was otherwise reviewed by MJCP and assumed such accuracy and completeness for purposes of rendering its opinion. MJCP further relied on the assurances of the respective managements of HomeStreet and Simplicity that they were not aware of any facts or circumstances that would make any of such information inaccurate or misleading. MJCP was not asked to, and did not, undertake an independent verification of any of such information and MJCP did not (and does not now) assume any responsibility or liability for the accuracy or completeness thereof. MJCP has not made any independent evaluation or appraisal of any properties, assets or liabilities of HomeStreet or Simplicity.

MJCP did not render an opinion or evaluation on the collectability of any assets or the future performance of any loans of HomeStreet and Simplicity. MJCP did not make an independent evaluation of the adequacy of the allowance for loan losses of HomeStreet and Simplicity, or the combined entity after the merger, and MJCP did not review any individual credit files relating to HomeStreet and Simplicity. MJCP assumed, with HomeStreet s consent, that the respective allowances for loan losses for both HomeStreet and Simplicity were adequate to cover such losses and will be adequate on a pro forma basis for the combined entity.

In preparing its analyses, MJCP used internal projections and future growth rates for HomeStreet and Simplicity as provided by each company s respective management. MJCP also received and used in its analyses certain projections of transaction costs, purchase accounting adjustments, expected cost savings and other synergies which were prepared by the management of HomeStreet. With respect to those projections, guidance, estimates and judgments, the respective managements of HomeStreet and Simplicity confirmed to MJCP that those projections, guidance, estimates and judgments reflected the best currently available guidance, estimates and judgments of those respective managements of the future financial performance of HomeStreet and Simplicity, respectively, and MJCP assumed that such performance would be achieved. MJCP did not express an opinion as to such estimates or the assumptions on which they are based. MJCP also assumed that there were no material changes in HomeStreet s and Simplicity s assets, financial condition, results of operations, business or prospects since the date of the most recent financial statements made available to MJCP. MJCP assumed in all respects material to its analysis that HomeStreet and Simplicity will remain as going concerns for all periods relevant to its analyses, that all of the representations and warranties contained in the merger agreement and all related agreements are and will remain true and correct, that each party to the agreements will perform all of the covenants required to be performed by such party under the agreements, that the conditions precedent in the merger agreement will not be not waived and that the merger will qualify as a tax-free reorganization for federal income tax purposes. Finally, with HomeStreet s consent, MJCP relied upon HomeStreet s expectations as to certain legal, accounting and tax matters relating to the merger and the other transactions contemplated by the merger agreement.

MJCP s opinion is necessarily based on financial, economic, market and other conditions as in effect on, and the information made available to MJCP as of, the date of its opinion. Events occurring after the date of the opinion could materially affect the opinion. MJCP has not undertaken to update, revise, reaffirm or withdraw its opinion or otherwise comment upon events occurring after the date of the opinion. MJCP has acted as HomeStreet s financial advisor in connection with the merger and will receive a fee for its services, a substantial portion of which is contingent upon consummation of the merger.

Unless otherwise indicated, the following quantitative information, to the extent it is based on market data, is based on market data as of September 22, 2014, and is not necessarily indicative of market conditions after such date.

Summary of Proposal

MJCP reviewed the financial terms of the proposed transaction. Using the fixed exchange ratio of 1.00 multiplied by the $17.80 HomeStreet 10-day average closing stock price on September 22, 2014, MJ Capital Partners calculated a transaction value of $17.80 per share, or an aggregate transaction value of approximately $128.3 million. Based upon financial information as of or for the twelve month period ended June 30, 2014, MJCP calculated the following transaction ratios:

Transaction Ratios	
Price to Book Value Per Share (fully diluted)	93.7%
Price to Tangible Book Value Per Share (fully diluted)	96.5%
Adjusted Price to 8.5% Tangible Common Equity[(1)]	93.8%
Price to Latest Twelve Months Earnings Per Share	24.5x
Price to Assets	14.6%
Premium Over Tangible Book Value to Core Deposits (non-time)	-1.1%
Price to Deposits	19.7%
Market Premium	6.3%

(1) Assumes tangible common equity in excess of 8.5% of tangible assets is used to reduce the purchase price on a dollar-for-dollar basis.

Contribution Analysis

MJCP analyzed the relative contribution of HomeStreet and Simplicity to certain financial and operating metrics for the pro forma combined company. Such financial and operating metrics included: (i) market capitalization; (ii) total loans, including loans held for sale; (iii) total assets; (iv) total deposits; (v) tangible common equity; (vi) total equity; and (vii) and latest twelve months net income. The relative contribution analysis did not give effect to the impact of any synergies, purchase accounting or merger related adjustments as a result of the

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proposed merger. Based upon financial information as of or for the twelve month period ended June 30, 2014, the results of this analysis are summarized in the table below:

Contribution Analysis

				Contribution Percentage	
	HomeStreet	Simplicity	Combined	HomeStreet	Simplicity
Market Capitalization	$ 260.2	$ 123.4	$ 383.6	67.8%	32.2%
Loans, Including Loans Held For Sale	$ 2,384.3	$ 724.0	$ 3,108.3	76.7%	23.3%
Total Assets	$ 3,235.7	$ 879.2	$ 4,114.9	78.6%	21.4%
Total Deposits	$ 2,417.7	$ 652.8	$ 3,070.5	78.7%	21.3%
Tangible Common Equity	$ 273.6	$ 132.9	$ 406.5	67.3%	32.7%
Total Equity	$ 288.2	$ 136.9	$ 425.1	67.8%	32.2%
Latest Twelve Months Net Income	$ 12.5	$ 5.3	$ 17.8	70.1%	29.9%
Pro Forma Ownership				67.3%	32.7%

Dollars in millions.

Selected Companies Analysis

MJCP used publicly available information to compare selected financial and market trading information for Simplicity and two groups of financial institutions selected by MJCP based on MJCP s professional judgment and experience. The groups of selected companies included: (1) U.S. Thrifts and (2) Western U.S. Banks and Thrifts .

U.S. Thrifts included 10 financial institutions where the company s:

- common stock was listed on NASDAQ or NYSE;
- total assets were between $750.0 million and $1.25 billion; and
- tangible common equity to tangible assets ratio was greater than 10.0%.

Western U.S. Banks and Thrifts included 13 financial institutions where the company s:

- common stock was listed on NASDAQ or NYSE;
- headquarters was located in the Western U.S.;
- total assets were between $600.0 million and $1.5 billion; and

latest twelve months return on assets was greater than 0.25%.

The following tables set forth the companies included in the U.S. Thrifts and Western U.S. Banks and Thrifts groups.

U.S. Thrifts

ASB Bancorp, Inc.	First Financial Northwest, Inc.
BSB Bancorp, Inc.	Fox Chase Bancorp, Inc.
Cape Bancorp, Inc.	NASB Financial, Inc.
Charter Financial Corporation	Ocean Shore Holding Co.
Clifton Bancorp Inc.	Provident Financial Holdings, Inc.

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Western U.S. Banks and Thrifts

Bank of Commerce Holdings	Pacific Continental Corporation
Central Valley Community Bancorp	Provident Financial Holdings, Inc.
CU Bancorp	Riverview Bancorp, Inc.
First Financial Northwest, Inc.	Sierra Bancorp
Heritage Commerce Corp	Timberland Bancorp, Inc.
Northrim BanCorp, Inc.	United Security Bancshares
Oak Valley Bancorp	

The analysis compared publicly available financial information and market trading data for Simplicity and the two selected companies groups as of or for the twelve month period ended June 30, 2014 with pricing data as of September 22, 2014. The results of this analysis are summarized in the following table.

		Selected Company Group Median	
	Simplicity	U.S. Thrifts	Western U.S. Banks and Thrifts
Total Assets	879,188	1,098,398	1,105,629
Market Value	123,419	165,124	141,453
Price / Latest Twelve Months Core Earnings Per Share(1)	23.1x	25.2x	14.8x
Price / Book Value (reported)	90%	92%	110%
Price / Tangible Book Value (reported)	93%	94%	118%
Dividend Yield	2.1%	1.9%	1.9%
Latest Twelve Months Stock Price Change	8.8%	-2.0%	13.9%
Latest Twelve Months Core Return on Average Assets(1)	0.62%	0.57%	1.05%
Latest Twelve Months Core Return on Average Equity(1)	3.8%	4.1%	8.2%
Total Loans / Total Deposits	111%	103%	80%
Tangible Common Equity / Tangible Assets	15.2%	14.8%	10.7%
Total Risk Based Capital Ratio	21.7%	24.0%	15.8%
Non-Performing Assets(2)/ Total Assets	2.0%	1.5%	1.7%
Loan Loss Reserve / Total Loans	0.63%	1.23%	1.70%
Latest Twelve Months Non-Interest Income / Total Revenue	17.3%	14.1%	14.5%
Latest Twelve Months Efficiency Ratio	76.2%	69.5%	67.2%
Latest Twelve Months Net Interest Margin	3.30%	3.14%	3.87%

(1) Core net income used where available. Source: SNL Financial.
(2) Nonperforming assets include all nonaccrual loans, loans 90+ days past due, restructured loans and OREO.

Selected Merger and Acquisition Transactions Analysis

MJCP reviewed two sets of selected merger and acquisition transactions. The sets of mergers and acquisitions included: (1) U.S. Thrift Transactions and (2) Western U.S. Bank and Thrift Transactions .

U.S. Thrift Transactions included 11 transactions where:

- the transaction was announced after January 1, 2013;
- the transaction involved thrifts headquartered nationwide;
- the aggregate transaction value was between $50.0 million and $250.0 million; and
- the return on average assets of the selling company was greater than 0.25%.

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Western U.S. Bank and Thrift Transactions included 9 transactions where:

- the transaction was announced after January 1, 2013;
- the transaction involved banks and thrifts headquartered in the Western U.S.;
- the aggregate transaction value was between $50.0 million and $300.0 million; and
- the return on average assets of the selling company was greater than 0.25%.

The following tables list the transactions included in U.S. Thrift Transactions and Western U.S. Bank and Thrift Transactions :

U.S. Thrift Transactions

Announcement Date	Acquirer	Target
8/5/2014*	Independent Bank Corp.	Peoples Federal Bancshares Inc
6/4/2014*	National Penn Bancshares Inc.	TF Financial Corp.
6/4/2014*	Old National Bancorp	LSB Financial Corp.
4/14/2014*	CB Financial Services Inc.	FedFirst Financial Corp.
4/8/2014*	F.N.B. Corp.	OBA Financial Services Inc
1/23/2014	HomeTrust Bancshares Inc.	Jefferson Bancshares Inc.
12/20/2013	Provident Financial Services	Team Capital Bank
5/13/2013	First Merchants Corp.	CFS Bancorp Inc.
3/5/2013	SI Financial Group Inc.	Newport Bancorp Inc.
2/19/2013	F.N.B. Corp.	PVF Capital Corp.
2/6/2013	First Financial Bankshares	Orange SB SSB

* *Indicates the transaction was pending as of September 22, 2014.*

Western U.S. Bank and Thrift Transactions

Announcement Date	Acquirer	Target
8/7/2014*	Banner Corp.	Siuslaw Financial Group
7/23/2014*	Columbia Banking System Inc.	Intermountain Community Bncp
6/3/2014*	CU Bancorp	1st Enterprise Bank
2/18/2014	CVB Financial Corp.	American Security Bank
2/10/2014	First Interstate BancSystem	Mountain West Financial Corp.
1/21/2014*	TriCo Bancshares	North Valley Bancorp
10/23/2013	Heritage Financial Corp.	Washington Banking Co.

10/21/2013	Heritage Oaks Bancorp	Mission Community Bancorp
1/22/2013	Western Alliance Bancorp	Centennial Bank

* *Indicates the transaction was pending as of September 22, 2014.*

For each transaction referred to above, MJCP compared, among other things, the following implied ratios:

- transaction price compared to book value per share;
- transaction price compared to tangible book value per share;
- adjusted transaction price to 8.5% tangible common equity;
- transaction price compared to earnings per share for the last twelve months;

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transaction price to assets;

premium over tangible book value to core deposits (non-time); and

transaction price to deposits.

As illustrated in the following table, MJCP compared the proposed merger multiples to the multiples of the selected transaction groups. The tables below sets forth the data for the selected transaction groups as of the last twelve months ended prior to the transaction announcement and the proposed merger transaction multiples for the last twelve months ended June 30, 2014.

U.S. Thrift Transactions

	HomeStreet/ Simplicity	Minimum	Median	Maximum
Price to Book Value Per Share	94%	96%	127%	191%
Price to Tangible Book Value Per Share	97%	98%	130%	191%
Adjusted Price to 8.5% Tangible Common Equity(1)	94%	97%	152%	184%
Price to Latest Twelve Months Earnings Per Share	24.5x	13.2x	25.2x	85.2x
Price to Assets	14.6%	10.0%	14.2%	25.6%
Premium Over Tangible Book Value to Core Deposits(2)	-1.1%	-0.3%	6.9%	10.8%
Price to Deposits	19.7%	11.8%	20.5%	34.2%

(1) Assumes tangible common equity in excess of 8.5% of tangible assets is used to reduce the purchase price on a dollar-for-dollar basis.

(2) Core deposits defined as non-time deposits.

Western U.S. Bank and Thrift Transactions

	HomeStreet/ Simplicity	Minimum	Median	Maximum
Price to Book Value Per Share	94%	66%	135%	188%
Price to Tangible Book Value Per Share	97%	66%	145%	188%
Adjusted Price to 8.5% Tangible Common Equity(1)	94%	14%	157%	208%
Price to Latest Twelve Months Earnings Per Share	24.5x	9.6x	17.3x	55.5x
Price to Assets	14.6%	10.1%	14.4%	19.6%
Premium Over Tangible Book Value to Core Deposits(2)	-1.1%	-24.1%	6.8%	11.9%

Price to Deposits	19.7%	13.6%	16.0%	23.0%

(1) Assumes tangible common equity in excess of 8.5% of tangible assets is used to reduce the purchase price on a dollar-for-dollar basis.
(2) Core deposits defined as non-time deposits.

Pro Forma Financial Impact Analysis

MJCP performed pro forma merger analyses that combined projected income statement and balance sheet information of HomeStreet and Simplicity. Assumptions regarding the accounting treatment, acquisition adjustments, cost savings and revenue enhancements were used to calculate the financial impact that the merger would have on certain projected financial results of HomeStreet. In the course of this analysis, MJCP used management prepared earnings projections for HomeStreet and Simplicity for the years ending December 31, 2015 and December 31, 2016. This analysis indicated that the merger is expected to be accretive to HomeStreet s estimated earnings per share in 2015, after excluding transaction-related expenses, and dilutive to HomeStreet s estimated earnings per share in 2016. The analysis also indicated that the merger is expected to be dilutive to

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tangible book value per share for HomeStreet and that HomeStreet would maintain capital ratios in excess of those required for HomeStreet to be considered well-capitalized under existing regulations. For all of the above analyses, the actual results achieved by HomeStreet and Simplicity prior to and following the merger will vary from the projected results, and the variations may be material.

Adjusted Discounted Cash Flow Analysis

Using a discounted cash flow analysis, MJCP estimated the net present value of the future streams of after-tax cash flow that Simplicity could produce on a stand-alone basis, augmented by HomeStreet management s estimated cost savings, referred to below as dividendable net income. In this analysis, MJCP assumed that Simplicity would perform in accordance with its management s estimates and calculated assumed after-tax distributions to a potential acquirer such that Simplicity s tangible common equity ratio would be maintained at 8.5% of tangible assets. MJCP calculated the sum of the assumed dividendable net income stream per share through December 31, 2019, discounted to present values at assumed discount rates ranging from 10.0% to 12.0%. To approximate the terminal value of Simplicity s common stock at December 31, 2019, MJCP applied price to last twelve months earnings multiples ranging from 12.0x to 15.0x. This discounted cash flow analysis indicated an implied value of Simplicity common stock of $23.48 per share to $28.40 per share. This analysis did not purport to be indicative of actual future results and did not purport to reflect the prices at which shares of Simplicity common stock may trade in the public markets. A discounted cash flow analysis was included because it is a widely used valuation methodology, but the results of such methodology are highly dependent upon the numerous assumptions that must be made, including estimated cost savings and operating synergies, earnings growth rates, dividend payout rates, exit multiples and discount rates.

MJCP prepared its analyses for purposes of providing its opinion to HomeStreet s Board of Directors as to the fairness, from a financial point of view, of the consideration to be paid in the merger by HomeStreet in order to assist HomeStreet s Board of Directors in analyzing the proposed merger. Analyses based upon forecasts of future results are not necessarily indicative of actual future results, which may be significantly more or less favorable than those suggested by these analyses. Because these analyses are inherently subject to uncertainty, being based upon numerous factors or events beyond the control of the parties and their respective advisors, none of HomeStreet, Simplicity or MJCP or any other person assumes responsibility if future results are materially different from those forecasted.

MJCP acted as financial advisor to HomeStreet in connection with, and participated in certain of the negotiations leading to the merger. Pursuant to a letter agreement dated August 20, 2014, HomeStreet engaged MJCP as its financial advisor in connection with the merger transaction. Pursuant to the terms of the engagement letter, HomeStreet agreed to pay MJCP a cash fee of $75,000 concurrently with the rendering of its opinion. HomeStreet will pay to MJCP at the time of closing of the merger a contingent cash fee equal to a percentage of the aggregate merger consideration. HomeStreet s fee payable at closing will be equal to 1.0% of the total consideration prior to crediting the fee previously received upon rendering the opinion. MJCP will not receive any other significant payment or compensation contingent upon the successful consummation of the merger. HomeStreet has also agreed to reimburse MJCP for all reasonable out-of-pocket expenses, including fees of counsel, and to indemnify MJCP and certain related persons against specified liabilities, including liabilities under the federal securities laws, relating to or arising out of its engagement. There are no material relationships that existed during the two years prior to the date of MJCP s opinion or that are mutually understood to be contemplated in which any compensation was received or is intended to be received as a result of the relationship between MJCP and any party to the merger. MJCP may seek to provide investment banking services to HomeStreet or its affiliates in the future, for which MJCP would seek customary compensation.

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Differences in Discounted Cash Flow Analyses Performed by HomeStreet s Financial Advisor and Simplicity s Financial Advisor

A discounted cash flow analysis is a widely used valuation methodology, but the results of the application of such methodology are highly dependent upon the assumptions made and other factors considered. The discounted cash flow analysis performed by MJCP in connection with its fairness opinion to the HomeStreet board of directors was intended to show the incremental value to HomeStreet shareholders assuming the merger takes place, including the adjustments and cost savings that are expected to result from the transaction. On the other hand, the discounted cash flow analysis performed by KBW in connection with its fairness opinion to the Simplicity board of directors evaluated Simplicity as a stand-alone entity in order to estimate a range of implied per share values of Simplicity that could be compared to the merger consideration in the proposed merger. The results of the discounted cash flow analyses performed were different due to factors that include but are not limited to:

- anticipated cost savings of approximately $5.5 million over a 5-year period resulting from the elimination of redundancies in the operating structures of the two entities that were included in the MJCP analysis;
- differences in estimated annual growth assumptions provided by the parties to their respective financial advisors for the years after 2016, which reflect a higher growth rate expectation for the combined entity given HomeStreet s more aggressive strategic growth plan;
- differences in tangible common equity ratio targets;
- differences in discount rates;
- differences in terminal year, terminal valuation methodologies (earnings multiples and tangible book value multiples) and exit multiples; and
- approximately $11.2 million of one-time after-tax transaction costs of Simplicity relating to the merger that were included in the MJCP analysis.

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THE MERGER

General

HomeStreet s and Simplicity s respective boards of directors have approved the merger agreement and have recommended that their respective shareholders approve the respective proposals necessary to consummate the transactions contemplated thereby. HomeStreet s shareholders are being asked to approve the issuance of up to 7,479,964 shares of HomeStreet common stock as merger consideration. In the case of Simplicity, the stockholders are being asked to approve the merger and the related transactions. Simplicity stockholders also are being asked to vote upon the Merger-Related Executive Compensation proposal, a non-binding advisory resolution regarding compensation payable to certain of Simplicity s named executive officers in connection with the merger. The approval of this non-binding resolution is not a condition to the consummation of the merger.

If the relevant proposals are approved and the remaining conditions to closing are satisfied or waived, then at the effective time Simplicity will merge with and into HomeStreet, with HomeStreet continuing as the surviving corporation. Immediately after the effective time, Simplicity s wholly owned bank subsidiary, Simplicity Bank, will merge with and into HomeStreet s wholly owned subsidiary, HomeStreet Bank, with HomeStreet Bank becoming the resulting bank. The bank merger does not require the approval of the shareholders of either party but it will not be consummated unless the merger is completed.

In the merger, each share of Simplicity common stock, $0.01 par value per share, issued and outstanding immediately prior to the effective time, except for shares of Simplicity common stock held by Simplicity or HomeStreet or their respective subsidiaries will be converted into the right to receive the merger consideration as described below.

Summary of the Merger

Merger Consideration

At the effective time, each share of Simplicity common stock issued and outstanding immediately prior to the effective time, except shares owned by Simplicity, HomeStreet or their respective subsidiaries, will be converted into the right to receive the merger consideration together with any dividends accrued on such shares of Simplicity common stock but theretofore unpaid. The merger consideration consists of a number of shares of HomeStreet common stock, no par value per share, determined by an exchange ratio. So long as HomeStreet s arithmetic average closing common stock price during a ten consecutive trading day measurement period that ends on and excludes the fifth day prior to the effective time (the average closing price) is at least $15 and not more than $20 per share, the exchange ratio will be one share of HomeStreet common stock for each share of Simplicity common stock.

If the average closing price is more than $20 per share, then the exchange ratio will be adjusted downward so that Simplicity stockholders receive a value, based on the average closing price, equal to $20 per share. The exchange ratio in any such case will be computed as the quotient of $20 divided by the average closing price. Thus Simplicity s stockholders would receive a value (based on the average closing price) of no more than $20 per Simplicity share, even if the average closing price is above that amount. For example, if the average closing price is $24 per share, Simplicity stockholders would receive 0.83 shares of HomeStreet common stock, having a value of $20 based upon the average closing price, for each share of Simplicity common stock they owned at the effective time.

If the average closing price is less than $15 per share, then HomeStreet may but Simplicity stockholders should note that HomeStreet is not required to issue additional shares of HomeStreet common stock so that Simplicity stockholders will receive HomeStreet common stock having a value equal to $15 per share, again based on the average closing price. In such an instance, the exchange ratio would be increased to the quotient obtained by dividing $15 by the average closing price. For example, if the average closing price is $12.50 per share and HomeStreet elected to increase the exchange ratio as permitted under the merger agreement, then Simplicity stockholders would receive 1.2 shares of HomeStreet common stock for each share of Simplicity common stock they held at the effective time. If HomeStreet does not elect to increase the exchange ratio under this circumstance, Simplicity s board of directors may terminate the merger agreement, but it is not required to do so. Under such circumstances, Simplicity s stockholders are not assured of receiving a minimum value, although in such instances they would receive one share of HomeStreet common stock per Simplicity share.

If either party experiences a change in the number of outstanding shares of its common stock prior to the effective time as a result of a reorganization, recapitalization, reclassification, stock dividend or stock distribution, stock split, reverse stock split or other similar change in capitalization, an appropriate and proportionate adjustment will be made to the exchange ratio. Exercises of stock options, whether now outstanding or hereafter granted, and the issuance of additional shares of HomeStreet common stock or Simplicity common stock, as the case may be, pursuant to any permitted awards of restricted stock or any permitted sales of capital stock (including convertible securities and other derivative securities) will not trigger any such adjustment.

Fractional Shares

HomeStreet will not issue any fractional shares of HomeStreet common stock in the merger. Instead, a Simplicity stockholder who otherwise would have received a fractional share of HomeStreet common stock (after taking into account all shares of Simplicity common stock held by the holder at the effective time will receive an amount in cash determined by multiplying the fraction of a share by the average closing price unless the average closing price is less than or equal to $15 or greater than or equal to $20 in which cases such number will be $15 and $20, respectively and then rounded to the nearest cent.

Governing Documents; Directors and Officers; Governance Matters; Headquarters

At the effective time, the articles of incorporation and bylaws of HomeStreet in effect immediately prior to the effective time will become the articles of incorporation and bylaws of the surviving corporation until thereafter amended in accordance with applicable law. Also at the effective time, the surviving corporation s board of directors will consist of 11 directors, and the board of directors of the resulting bank will be comprised of 13 directors. The boards of directors of the surviving corporation and the resulting bank will include one Simplicity director selected by a vote of a majority of the HomeStreet board. Such person will continue to serve until the next annual meeting of HomeStreet s shareholders or until his or her successor is duly elected and qualified.

From and after the effective time, Mark K. Mason, Chief Executive Officer, President and Vice Chairman of HomeStreet and President and Vice Chairman of HomeStreet Bank will continue to serve in those positions. David A. Ederer, Chairman of HomeStreet, will continue to serve in that position.

The location of the headquarters and principal executive offices of the combined company will remain in Seattle, Washington.

Closing and Effective Time

The merger will be completed only if all conditions to the merger discussed in this joint proxy statement and set forth in the merger agreement are either satisfied or waived. See Conditions to Complete the Merger.

The merger will become effective as set forth in the articles of merger to be filed with the Secretary of State of the State of Washington and the Department of Assessments and Taxation of the State of Maryland. The closing of the transactions contemplated by the merger will occur on the business day preceding the effective time, and will be convened at the offices of Davis Wright Tremaine LLP in Seattle, Washington, or at such other place as the parties may agree. The effective time must occur on or before the fifth business day following satisfaction or waiver of the last to occur of the closing conditions set forth in the merger agreement, unless extended by mutual agreement of the parties. We currently expect to complete the merger in the first quarter of 2015, subject to the receipt of regulatory approvals, the favorable completion of the Fairness Hearing and the issuance of the Permit, the receipt of the requisite shareholder approvals, and other customary closing conditions. Neither Simplicity nor HomeStreet can guarantee when or if the merger will be completed.

Conversion of Shares

After completion of the merger, the exchange agent will make appropriate arrangements to provide that shares of Simplicity common stock held in book-entry form will be transferred by means of an agent s message or other means in order for Simplicity stockholders holding shares in book-entry form to receive the merger consideration pursuant to the terms of the merger agreement.

After effective time, there will be no further transfers on the stock transfer books of Simplicity of shares of Simplicity common stock (other than to settle transfers of Simplicity common stock that occurred prior to the effective time).

Dissenters Rights

No shareholders of either party are entitled to dissent from the merger and obtain payment of the fair value of their shares in cash. As to Simplicity stockholders, the Maryland General Corporation Law does not provide for dissenters rights for stockholders of a company whose shares trade on a national securities exchange. The Washington Business Corporation Act does provide for dissenters rights in certain circumstances; however, those circumstances are not applicable to HomeStreet shareholders in connection with the merger because the vote of HomeStreet s shareholders is not required as a condition to consummate the merger, and we are not seeking the approval of the merger by HomeStreet shareholders under Washington law. Instead, because of applicable Nasdaq listing qualification regulations, we are asking HomeStreet shareholders to approve the issuance of shares of HomeStreet common stock that comprise the merger consideration.

Treatment of Options and Restricted Stock

Vested options to purchase Simplicity common stock may be exercised in accordance with their terms until the closing. Immediately prior to the effective time, Simplicity will cancel all outstanding options not theretofore exercised, and the holders of such options will have no further rights with respect to the options or the shares of Simplicity common stock issuable upon exercise thereof. Upon cancellation, all previously unvested Simplicity stock options will vest in full, and the holders of those options will be entitled to receive a cash payment in the amount of the product of the number of shares of Simplicity common stock subject to the Simplicity stock option and by the amount that the deemed closing price (equal to the value of the HomeStreet common stock as computed for purposes of determining the merger consideration but not less than $15 nor more than $20 per share) exceeds the exercise price of the option and net of applicable withholding taxes. Simplicity stockholders should be aware that, although it is possible for the merger to be consummated if the average closing price of HomeStreet s common stock is less than $15 per share (an outcome that would occur only if HomeStreet were to decline to increase the exchange ratio and thereafter, Simplicity s board of directors did not assert Simplicity s right to terminate the merger agreement), the minimum deemed closing price for purposes of computing the consideration payable to option holders is $15 per share. It is therefore possible under such circumstances for Simplicity option holders to receive more consideration per share (before taking into account the reduction for option exercise prices) than would Simplicity stockholders.

Each Simplicity restricted stock share that is outstanding immediately prior to the effective time will vest in full and any restrictions will lapse and all such Simplicity restricted stock shares will be entitled to receive the merger consideration.

Withholding

HomeStreet may deduct and withhold, or may cause the exchange agent to deduct and withhold, from the merger consideration payable to any Simplicity stockholder the amounts it is required to deduct and withhold under any

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provision of federal, state, local or foreign tax law. Similarly, upon the cancellation of Simplicity stock options as described in the preceding paragraph, Simplicity may deduct and withhold from the amounts payable to any such option holder the amounts it is required to deduct and withhold under any provision of applicable tax law. If any such amounts are withheld and paid over to the appropriate governmental authority, the withheld amounts will be treated as having been paid to the stockholder or option holder from whom they were withheld.

Dividends and Distributions

After a Simplicity stockholder properly surrenders his or her shares he or she will receive the merger consideration together with any such dividends or other distributions, without any interest, with a record date after the effective time and previously paid or payable on the date of such surrender with respect to the whole shares of HomeStreet common stock representing such merger consideration. In the case of HomeStreet dividends or distributions declared prior to the delivery of a Simplicity stock certificate, but not theretofore paid, the shareholder will receive any such dividends on the payment date applicable to such dividends or distributions.

Representations and Warranties

The representations, warranties and covenants described below and included in the merger agreement were made only for purposes of the merger agreement and as of specific dates. These provisions are solely for the benefit of HomeStreet and Simplicity, may be subject to limitations, qualifications or exceptions agreed upon by the parties, including being qualified by confidential disclosures made for the purposes of, among other things, allocating contractual risk between HomeStreet and Simplicity rather than establishing matters as fact, and may be subject to standards of materiality that differ from those standards relevant to investors. ***You should not rely on the representations, warranties, covenants or any description thereof as characterizations of the actual state of facts or condition regarding HomeStreet, Simplicity or any of their respective subsidiaries or affiliates.*** Moreover, matters relating to the representations, warranties and covenants may change after the date of the merger agreement, and subsequent information may not be fully reflected in public disclosures by HomeStreet or Simplicity. The representations and warranties in the merger agreement do not survive the effective time. The representations and warranties, other provisions of the merger agreement or any description of these provisions should not be read alone, but instead should be read only in conjunction with the information provided elsewhere in this joint proxy statement, the documents incorporated by reference into this joint proxy statement and the other reports, statements and filings that HomeStreet and Simplicity publicly file with the SEC. See Where You Can Find More Information.

The merger agreement contains specific representations and warranties made by each of HomeStreet and Simplicity relating to a number of matters as described below. These representations and warranties generally include:

- corporate matters, including organization, qualification, subsidiaries and corporate authority;
- capitalization, including authorized and outstanding shares, classes of stock, restricted stock, and options, warrants, and other derivative securities;
- corporate power and authority to enter into the merger agreement;

absence of conflicts with, or violations of, organizational documents and contractual arrangements;

required governmental and other regulatory filings and consents and approvals in connection with the merger;

compliance with securities laws and certain related matters;

financial statements, internal controls, books and records, and absence of undisclosed liabilities;

the absence of certain changes or events;

- legal proceedings;
- governmental reports;
- taxes, benefit plans and employment and labor matters;
- compliance with laws and regulations;
- loan quality, proper classification and compliance;
- material contracts;
- insurance;
- intellectual property;
- derivative instruments and fiduciary accounts;
- environmental liabilities;
- absence of outstanding regulatory orders;
- ownership of properties;
- related party transactions;
- inapplicability of takeover statutes;
- brokers;
- opinion from financial advisor; and

(solely as to Simplicity) no agreement to nominate or designate directors.

Certain representations and warranties of HomeStreet and Simplicity are qualified as to materiality or material adverse effect. For purposes of the merger agreement, a material adverse effect, when used in reference to either Simplicity or HomeStreet, means any effect that (a) is material and adverse to the financial condition, results of operations or business of a party and its subsidiaries taken as a whole, or (b) would materially impair the ability of either party or its subsidiaries to perform their respective obligations under the merger agreement or otherwise materially impede the consummation of the merger or the related transactions. A material adverse effect does not include the impact of (i) changes in banking, savings institution and similar laws of general applicability or interpretations thereof by governmental entities, (ii) changes in GAAP or regulatory accounting requirements applicable to banks, savings institutions and their holding companies generally, (iii) changes in general economic conditions affecting banks, savings institutions and their holding companies generally, (iv) the announcement of the merger or any action or omission of a party or its subsidiaries required under the merger agreement or taken or omitted to be taken with the express written consent of the other party, (v) the direct effects of compliance with the merger agreement in the operating performance of the parties, including expenses incurred by the parties in investigating, negotiating, documenting, effecting and consummating the transactions contemplated by the merger agreement, or (vi) changes that are the result of natural disasters, calamities, acts of God or acts of war or terrorism, provided that the effect of such changes described in clauses (i), (ii), (iii) and (vi) shall not be excluded as a material adverse effect to the extent of a materially disproportionate impact, if any, they have on such party, as measured relative to similarly situated financial institutions. A material adverse effect expressly includes each party s entering into or becoming subject to any order, consent, decree, directive, agreement, memorandum of understanding or similar arrangement with any bank regulatory authorities.

Covenants and Agreements

Each party has agreed that, until the effective time, and subject to specified exceptions, it will, and will cause each of its subsidiaries to:

comply with all applicable banking laws and regulations, and inform the other party upon receipt of any report of an examination by bank regulatory authorities;

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- cooperate in preparing (including providing accurate and complete information for inclusion in) this joint proxy statement and the Fairness Hearing Notice, and in making all announcements and communications pertaining to the merger and the related transactions;

- attend and cause such party s representatives to attend and offer evidence in support of the merger at the Fairness Hearing;

- convene a meeting of such party s shareholders and take a vote upon the proposals to be submitted to the shareholders at such meeting (subject, in the case of Simplicity, to certain exceptions in connection with the fiduciary out discussed below); and

- take such other actions as may reasonably be required to consummate the merger and the other transactions contemplated by the merger agreement.

Simplicity has also agreed to provide HomeStreet with access to Simplicity s corporate records, financial and tax information, and other information, including delivering to HomeStreet copies of each report filed by Simplicity, other than for information, the disclosure of which would compromise Simplicity s attorney client privilege or would result in a violation of law or regulation.

Additionally, HomeStreet has agreed that, prior to closing, it will cause the shares reserved to be issued as merger consideration to have been listed on the Nasdaq, and that, immediately after closing, it will include one Simplicity director designated by HomeStreet on the boards of directors of HomeStreet and HomeStreet Bank.

Additionally, prior to the effective time, subject to specified exceptions, neither party may, and neither party may permit any of its subsidiaries to, undertake the following actions:

- fail to use reasonable best efforts to preserve its business;

- take any action that would prevent or materially impede or delay the merger; or

- take any action that results in (i) any of their representations and warranties set forth in the merger agreement from becoming untrue in any material respect at any time prior to the effective time, (ii) any of the closing conditions to the merger not being satisfied, (iii) a material violation of any provision of the merger agreement, except as may be required by applicable law or by bank regulatory authorities, or (iv) a material delay in the ability of either party to perform any of their obligations under the merger agreement, or to obtain regulatory approval on a timely basis.

Simplicity is also prohibited from taking certain actions without HomeStreet s consent, which consent generally may not be unreasonably withheld, conditioned or delayed, and which consent will be deemed to have been given unless HomeStreet timely notifies Simplicity in writing of a specific objection within five business days in certain circumstances. These matters generally provide exceptions for actions taken in the ordinary course of business and consistent with past practice, and include:

taking any action outside the ordinary course of business;

issuing or selling capital stock or other equity securities other than upon the exercise of outstanding stock options;

declaring or paying any dividend or other distribution (other than for the payment of a regular dividend not to exceed $0.09 per share per quarter), or repurchasing, splitting, recombining or reclassifying its capital stock;

incurring any new indebtedness for borrowed money or assuming, guaranteeing or otherwise becoming responsible for the obligations of any person;

modifying any employment agreements or employee compensation, other than for changes required by law, routine pay increases for non-executive employees and excepting bonuses payable with respect to Simplicity s performance during the fiscal year ending June 30, 2015, to the extent such bonuses have been accrued on Simplicity s financial statements prior to the closing date;

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hiring any new employees except to fill vacancies or to satisfy contractual obligations in existence as of the date of the merger agreement or to fill vacancies after the date of the merger agreement where such hire is terminable at will;

adopting or modifying any employee benefit plans other than as contemplated by the merger agreement, the employee benefit plan or applicable law;

acquiring or disposing of any material properties or assets (subject to certain exceptions, including the acquisition and disposition of collateral acquired upon the foreclosure of security interests) or making capital expenditures in excess of $25,000 individually or $100,000 in the aggregate (subject to certain exceptions) or acquiring or investing in any real estate;

amending its governing documents;

changing its products or services other than as previously planned, or changing its marketing principles or practices;

changing its accounting methods other than as required by GAAP, law or bank regulatory authorities or change any tax election;

entering into, terminating, amending or failing to renew a material contract, subject to certain exceptions;

compromising or settling any claims that would impose material financial obligations, or would result in material operational restrictions, on Simplicity or its subsidiaries;

acquire or dispose of certain investment securities or invest in certain derivative securities;

make any new loans in excess of certain specified amounts;

take any action that would cause the merger or the merger agreement to become subject to any antitakeover statute or regulation, or waive the applicability of any such statute or regulation as to any other person;

engage in any transaction with any of its affiliates other than for renewals of existing loans made in accordance with applicable banking regulations; or agree to take, make any commitment to take, or adopt any resolutions of its board of directors or similar governing body in support of, any of the foregoing.

Regulatory Matters

HomeStreet and Simplicity have agreed to use their respective reasonable best efforts to prepare and file all necessary documentation, to effect all applications, notices, petitions and filings, to obtain as promptly as practicable all permits, consents, approvals and authorizations of all third parties and governmental entities which are necessary or advisable to consummate the transactions contemplated by the merger agreement and to comply with the terms and conditions of all such permits, consents, approvals and authorizations of all such third party and government entities. HomeStreet and Simplicity have also agreed to furnish each other with all information reasonably necessary or advisable and to consult with each other in connection with any statement, filing, notice or application to any governmental entity in connection with the merger and the other transactions contemplated by the merger agreement as well as to keep each other apprised of the status of matters related to the completion of the transactions contemplated by the merger agreement.

Regulatory Approvals Required for the Merger.

Completion of the merger is subject to prior receipt of certain approvals and consents required to be obtained from applicable governmental and regulatory authorities, without any conditions, restrictions or requirements which would, individually or in the aggregate: (i) prohibit or materially limit the ownership or operation by

HomeStreet or HomeStreet Bank of all or any material portion of the business or assets of Simplicity or any Simplicity Subsidiary, (ii) compel HomeStreet or HomeStreet Bank to dispose of or hold separate all or any material portion of the business or assets of Simplicity or any Simplicity Subsidiary, or (iii) impose a material compliance burden, penalty or obligation on HomeStreet or HomeStreet Bank resulting from noncompliance by Simplicity with its regulatory obligations. Subject to the terms and conditions of the merger agreement, HomeStreet and Simplicity have agreed to use their reasonable best efforts and cooperate to promptly prepare and file all necessary documentation and to obtain as promptly as practicable all regulatory approvals necessary or advisable to complete the transactions contemplated by the merger agreement. These approvals include, among others, approval from the WDFI and the FDIC. The approval of the Federal Reserve is also required unless the formal application requirement is waived by the Federal Reserve. In addition, notice of the proposed bank merger is required to be filed with the OCC. HomeStreet, HomeStreet Bank and Simplicity Bank have filed applications and notifications to obtain the required regulatory approvals and have received approvals from WDFI and the FDIC and an acknowledgement of receipt of notice from the OCC. HomeStreet has also received from the Federal Reserve a waiver from the formal application process with respect to the merger. However, such approvals and waivers may be withdrawn under certain circumstances.

HomeStreet and Simplicity are also seeking a Fairness Hearing from the California Department of Business Oversight in order to rely on an exemption from registration for the shares of HomeStreet common stock to be issued in the transaction, however, that fairness hearing is not part of the banking regulatory approval required to complete the merger.

Washington Department of Financial Institutions

The transactions contemplated by the merger agreement are subject to approval by the WDFI pursuant to RCW 32.32.500, which approval was granted on November 4, 2014, subject to receipt by the WDFI of certain documents to be completed in connection with the closing of the merger and the bank merger, including the articles and plan of merger for each of the proposed mergers.

Federal Deposit Insurance Corporation

The merger of Simplicity Bank with and into HomeStreet Bank is subject to approval by the FDIC pursuant to the Bank Merger Act. HomeStreet Bank has submitted an application pursuant to the Bank Merger Act seeking the prior approval of the FDIC for Simplicity Bank to merge with and into HomeStreet Bank. Such approval was obtained on November 25, 2014 (the FDIC Approval).

The FDIC takes into consideration a number of factors when acting on applications under the Bank Merger Act. These factors include the financial and managerial resources (including consideration of the competence, experience, and integrity of the officers, directors, and principal shareholders) and future prospects of the combined organization. The FDIC also considers the effectiveness of the applicant in combatting money laundering, the convenience and needs of the communities to be served, as well as the extent to which the proposal would result in greater or more concentrated risks to the stability of the U.S. banking or financial system. The FDIC may not approve a proposal that would have significant adverse effects on competition or on the concentration of resources in any banking market.

In reviewing the convenience and needs of the communities to be serviced, the FDIC will consider the records of performance of the relevant insured depository institutions under the Community Reinvestment Act of 1977 (which we refer to as the CRA). In their most recent respective CRA examinations, HomeStreet Bank has received an overall outstanding regulatory rating and Simplicity has received an overall satisfactory regulatory rating.

Furthermore, the Bank Merger Act and applicable regulations require published notice of, and the opportunity for public comment on, these applications. The FDIC takes into account the views of third party commenters,

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particularly on the subject of the merging parties service to their respective communities, and any hearing, meeting or comments provided by third parties could prolong the period during which the applications are under review by the Board and the FDIC.

Transactions approved under the Bank Merger Act generally may not be completed until 30 days after the approval of the applicable federal agency is received, during which time the Department of Justice (which we refer to as the DOJ) may challenge the transaction on antitrust grounds. With the approval of the applicable federal agency and the concurrence of the DOJ, the waiting period may be reduced to no less than 15 days. The FDIC Approval specifies a waiting period of 15 days. The commencement of an antitrust action would stay the effectiveness of such an approval unless a court specifically ordered otherwise. In reviewing the merger, the DOJ could analyze the merger s effect on competition differently than the FDIC, and thus it is possible that the DOJ could reach a different conclusion than the Board or FDIC regarding the merger s effects on competition. A determination by the DOJ not to object to the merger may not prevent the filing of antitrust actions by private persons or state attorneys general.

Federal Reserve Board

The transaction contemplated by the merger agreement is subject to approval by the Federal Reserve pursuant to the Home Owners Loan Act unless the Federal Reserve Board grants a waiver of the formal application process upon request of the acquiror. HomeStreet has received from the Federal Reserve a waiver from the formal application process with respect to the merger, however, such waiver may be withdrawn under certain conditions.

Office of the Comptroller of the Currency

Pursuant to 12 CFR § 163.22(b)(1)(i) and § 163.22(h)(1), Simplicity Bank submitted a notice of merger and a copy of the Interagency Merger Application to the OCC on September 25,2014. On November 4, 2014, the OCC acknowledged receipt of the notice.

In addition to approval of the merger application, closing of the merger is conditioned on Simplicity Bank receiving approval from the OCC for an amendment to Simplicity Bank s charter to allow the merger and bank merger to proceed, which approval has been received by Simplicity Bank.

Additional Regulatory Approvals and Notices

Notifications and/or applications requesting approval may be submitted to various other federal and state regulatory authorities and self-regulatory organizations. We have received confirmation from the Federal Trade Commission that no Hart-Scott-Rodino filing will be required if we receive approval of the bank merger from the FDIC and a waiver of formal approval from the Federal Reserve.

HomeStreet and Simplicity believe that the merger does not raise significant regulatory concerns and that we will be able to obtain all requisite regulatory approvals. Because HomeStreet does not currently operate any branches in the market where Simplicity s branches are operating, we do not anticipate any market-based competitive concerns. However, neither HomeStreet nor Simplicity can assure you that all of the regulatory approvals described above will be obtained and, if obtained, we cannot assure you as to the timing of any such approvals, our ability to obtain the approvals on satisfactory terms or the absence of any litigation challenging such approvals. In addition, there can be no assurance that such approvals will not impose conditions or requirements that, individually or in the aggregate, would or could reasonably be expected to have a material adverse effect on the financial condition, results of operations, assets or business of the combined company.

Neither HomeStreet nor Simplicity is aware of any material governmental approvals or actions that are required for completion of the merger other than the filing of the Articles of Merger and Plan of Merger with the Secretary of State of each of Washington state and the state of Maryland and those approvals described above. It is

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presently contemplated that if any such additional governmental approvals or actions are required, those approvals or actions will be sought. There can be no assurance, however, that any additional approvals or actions will be obtained.

Interests of Simplicity s Directors and Executive Officers in the Merger

On the record date for the special meeting, Simplicity s directors and executive officers beneficially owned, in the aggregate, 315,467 shares of Simplicity s common stock (excluding shares that may be acquired upon the exercise of stock options), representing approximately 4.3% of the outstanding shares of Simplicity common stock.

As described below, certain of Simplicity s executive officers and directors have interests in the merger that are in addition to, or different from, the interests of Simplicity s stockholders generally. Simplicity s board of directors was aware of these interests and took them into account in approving the merger.

Cash Payment for Outstanding Options.

Under the terms of the merger agreement, all outstanding Simplicity stock options issued under the Simplicity 2004 Stock Option Plan, whether or not vested, that is outstanding and unexercised immediately before the effective time of merger, will be terminated and the holder of the option will receive a cash payment equal to the product of (1) the number of shares of Simplicity common stock subject to the stock option, multiplied by (2) the amount by which the average closing price of HomeStreet common stock (but not less than $15 nor more than $20) exceeds the exercise price of the stock option, less any required tax withholding. Based upon the equity holdings of Simplicity, the number of Simplicity stock options with an exercise price of less than $20.00 held by executive officers and non-employee directors of Simplicity are as follows:

Executive Officer/Director of Simplicity	**Simplicity Stock Options (#)**	**Weighted-Average Exercise Price ($)**
Dustin Luton	22,388	11.37
Jean Carandang	5,395	10.85
Jeanne Thompson	10,791	10.85
David Hanighen		
Robert Reed		
Other executive officers as a group (3 persons)		
Non-employee directors as a group (7 persons)	48,019	12.60

Acceleration of Vesting of Restricted Stock Awards.

Under the terms of the merger agreement, Simplicity restricted stock awards that have not yet vested will become fully vested following the effective time of the merger and each share of restricted stock will be exchanged for the merger consideration. The unvested restricted stock awards held by Simplicity s executive officers and non-employee directors as of the record date are as follows:

Executive Officer/Director of Simplicity	**Simplicity Unvested Restricted Stock Awards**

	(#)
Dustin Luton	19,236
Jean Carandang	8,884
Jeanne Thompson	7,361
David Hanighen	6,747
Robert Reed	6,724
Other executive officers as a group (3 persons)	14,297
Non-employee directors as a group (7 persons)	6,224

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Employment Agreement with Dustin Luton.

Simplicity Bank is a party an employment agreement with Mr. Luton providing for severance benefits that would be triggered in the event of his termination of employment in connection with the merger. Specifically, in the event of Mr. Luton s involuntary termination without cause or voluntary termination for good reason (as defined in the employment agreement) following a change in control of Simplicity or Simplicity Bank, Mr. Luton would be entitled to the following severance benefits:

- a lump sum cash payment equal to two times the sum of: (i) Mr. Luton s annualized base salary (as defined under the agreement) and (ii) the highest rate of annual cash bonus earned under the Simplicity Bank Annual Incentive Plan (the Simplicity AIP) during the two years immediately prior to the year in which Mr. Luton s date of termination occurs; and

- continued life coverage and non-taxable medical and dental insurance coverage, at no cost to Mr. Luton, substantially identical to the coverage maintained by Simplicity Bank for Mr. Luton prior to his date of termination, with such coverage terminating upon the earlier of: (i) the completion of 24 months from his date of termination or (ii) the date on which he is eligible for comparable benefits through a new employer, or in the case of his spouse, until his spouse becomes eligible for comparable benefits through a new employer, or Medicare coverage or obtains coverage elsewhere, whichever period is less.

Notwithstanding the foregoing, the payments described above will be reduced to the extent necessary to avoid penalties under Section 280G of the Internal Revenue Code. Furthermore, the payments will not be made unless Mr. Luton releases all claims against Simplicity Bank, Simplicity and their respective affiliates and successors related to his employment (except for claims for benefits under tax-qualified plans or other benefits in which Mr. Luton is vested, claims for benefits required by applicable law or claims with respect to obligations set forth in the employment agreement that survive its termination).

For an estimate of the amounts payable in connection with a qualifying termination of employment following the merger to Mr. Luton under his employment agreement, see Description of the Merger Merger Related Compensation for Simplicity s Named Executive Officers below.

Executive Severance Plan.

On October 31, 2013, Simplicity Bank adopted the Simplicity Bank Executive Severance Plan (the Severance Plan). The employees eligible to participate in the Severance Plan are determined by the Chief Executive Officer, provided, however, that if the employee is a party to an employment or change in control agreement that provides for severance compensation in connection with a change in control of Simplicity or Simplicity Bank, he or she is not eligible to participate in the Severance Plan. Ms. Carandang, Ms. Thompson and Mr. Reed, along with three other executive officers are participants in the Severance Plan. Mr. Luton is not eligible to participate because he is a party to an employment agreement with Simplicity Bank.

The Severance Plan provides for certain payments and benefits in the event the participant s employment is involuntarily terminated without cause, or if the participant voluntarily resigns for good reason within 12 months after, the merger. Specifically, in the event of such termination, each participant is entitled to the following severance benefits:

a lump sum cash payment equal to two times the sum of: (i) participant s base salary (determined as of the date of termination) and (ii) the highest rate of annual cash bonus earned by the participant under the Simplicity AIP during the two years immediately prior to the year in which the participant s date of termination occurs; and

continued coverage under Simplicity Bank s (or any successor s) group health care coverage programs that are most comparable to Simplicity Bank s group health care coverage in existence as of the participant s date of termination, which shall be provided at no cost to the participant for 18 months after his or her date of termination.

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Notwithstanding the foregoing, the participant s payments under the Severance Plan will be reduced to the extent necessary to avoid penalties under Section 280G of the Internal Revenue Code. Furthermore, the payments will not be made unless the participant releases all claims against Simplicity Bank, Simplicity and their respective affiliates and successors related to his or her employment (except for claims for benefits under tax-qualified plans or other benefits in which the participant is vested, claims for benefits required by applicable law or claims with respect to obligations set forth in the Severance Plan that survive its termination).

For an estimate of the amounts payable in connection with a qualifying termination of employment following the merger to Simplicity s named executive officers who are participants in the Severance Plan, see Summary of the Merger Merger Related Compensation for Simplicity s Named Executive Officers below.

Based on compensation levels as of November 30, 2014 and assuming a qualifying termination of employment on February 28, 2015, the amount of cash severance that would be payable to the three other executive officers participating the Severance Plan, as a group, is $1,182,395 and the aggregate estimated value of the continued group health coverage benefits that would be provided to such group is $16,232. There are no reductions necessary to avoid penalties under Section 280G of the Internal Revenue Code related to the foregoing payments and benefits.

Simplicity AIP.

Each participant in the Simplicity AIP is entitled to receive an incentive bonus payment based on a percentage of his or her base salary if company-wide and individual performance goals are met at the end of each plan year (which is July 1 to June 30). Each executive officer participating in the plan is required to defer 30% of his or her annual incentive award earned during the plan year (the Deferred Award), which is paid in two equal installments: (1) the first installment is paid within two and one-half months following the end of the first anniversary date following the end of the plan year; and (2) second installment is paid within two and one-half months following the end of the second anniversary date following the end of the plan year, provided the executive officer is actively employed on the payment dates of the Deferred Award. Payment of the Deferred Amount is subject to certain performance requirements that must be satisfied by Simplicity, Simplicity Bank and/or the executive officer during the deferral period.

Pursuant to the Simplicity AIP and the merger agreement, each executive officer s Deferred Amount will fully vest and be paid to him or her in a lump sum as of the effective time of the merger. Furthermore, each executive officer participating in the Simplicity AIP for the 2014 plan year will be entitled to receive a pro-rata portion of his or her annual incentive award (the Pro-Rata Award), calculated from the first day of the plan year beginning on July 1, 2014 until the effective time of the merger, as if the performance requirements attributable to the award achieved target performance. The Pro-Rata Award will be paid to the executive officer in a lump sum immediately prior to the effective time of the merger.

For an estimate of the amounts payable in connection the merger to Simplicity s named executive officers who are participants in the Simplicity AIP, see Summary of the Merger Merger Related Compensation for Simplicity Bancorp s Named Executive Officers below.

Assuming the effective time of the merger is February 28, 2015, the aggregate amount of the Deferred Award and Pro-Rata Award that would be payable to the three other executive officers, as a group, is $131,849.

Simplicity ESOP.

The Simplicity ESOP is a tax-qualified plan that covers substantially all of the full-time employees of Simplicity Bank who have at least one year of service and have attained age 21. The Simplicity ESOP received a share acquisition loan from Simplicity, the proceeds of which were used to acquire shares of Simplicity common stock for the benefit of plan participants. The Simplicity ESOP has pledged the shares acquired with the loan as collateral for the loan and holds them in a suspense account, releasing them to participants accounts as the loan is repaid, using primarily contributions received from Simplicity Bank. Prior to the effective time of the merger,

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the outstanding share acquisition loan of the Simplicity ESOP will be repaid by the Simplicity ESOP by delivering a sufficient number of unallocated shares of Simplicity common stock to Simplicity. Any unallocated shares remaining in the suspense account (after the repayment of the outstanding share acquisition loan) will be allocated to the plan participants. Immediately prior to the effective time of the merger, the Simplicity ESOP will be terminated and all allocated shares of Simplicity common stock held by the Simplicity ESOP will be converted into the merger consideration.

As a result of the foregoing, Simplicity Bank s executive officers, as well as Simplicity Bank s other full-time employees who participate in the Simplicity ESOP, would receive an estimated benefit in connection with the Simplicity ESOP s termination to the extent that the stock price of Simplicity common stock multiplied by the number of shares held in the suspense account exceeds the outstanding loan used to acquire those shares. For an estimate of the value of the additional benefit that Simplicity s named executive officers would receive under the Simplicity ESOP upon the effective time of the merger, see Summary of the Merger Merger Related Compensation for Simplicity s Named Executive Officers below. Based on account levels as of November 30, 2014, and a Simplicity stock price of $16.68, the estimated value of the additional benefit that the three other executive officers (as a group) would receive under the Simplicity ESOP immediately prior to the effective time of the merger is $47,594.

Board Appointment.

One member of Simplicity s board of directors will be appointed to the boards of directors of HomeStreet and HomeStreet Bank.

Indemnification and Directors and Officers Insurance.

In connection with the parties entry into the merger agreement, each director and executive officer of Simplicity entered into a voting agreement with HomeStreet which provides, among other things, that HomeStreet will assume Simplicity s existing obligations under indemnification agreements with those individuals. In addition, pursuant to the merger agreement, HomeStreet will provide insurance for the directors and executive officers of Simplicity with respect to matters occurring at or prior to the effective time of the merger. See The Merger Voting Agreements; Indemnification and Insurance for further details.

Merger-Related Executive Compensation for Simplicity s Named Executive Officers

The following table and related footnotes provide information about the compensation to be paid to Simplicity s named executive officers that is based on or otherwise relates to the merger (the Merger-Related Executive Compensation). The Merger-Related Executive Compensation shown in the table and described in the footnotes below is subject to an advisory (non-binding) vote of Simplicity stockholders at the special meeting described in Simplicity Bancorp Proposal 2 Advisory Vote on Merger-Related Executive Compensation on page 138.

The table below sets forth the aggregate dollar value of the various elements of Merger-Related Executive Compensation that each named executive officer of Simplicity would receive that is based on or otherwise relates to the merger, assuming the following:

- the estimated effective time of the merger is February 28, 2015;

the employment of each named executive officer is terminated by HomeStreet Bank without cause at the effective time of the merger; and

all amounts below have been calculated based on a per share price of Simplicity common stock of $16.68 (the average closing market price of Simplicity common stock over the first five business days following the first public announcement of the merger on September 29, 2014).

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As a result of the foregoing assumptions, the actual amounts received by a named executive officer may materially differ from the amounts set forth below.

Merger-Related Executive Compensation

Executive	Cash ($)(1)	Equity ($)(2)	Pension/NQDC ($)	Perquisites/ Benefits ($)(3)	Tax Reimbursement ($)	Other ($)(4)	Total ($)
Dustin Luton	1,120,522	435,794		43,944		69,370	1,687,630
Jean Carandang	617,200	179,638		2,005		43,456	842,299
Jeanne Thompson	493,304	185,693		13,315		94,812	787,124
David Hanighen	516,775	112,540		5,219		14,126	648,660
Robert Reed	468,260	112,156		2,168		24,997	607,581

(1) Upon a qualifying termination of employment, which includes termination without cause or resignation for good reason following the occurrence of a change in control, the employment agreement for Mr. Luton provides for a lump sum cash payment equal to $994,596, which represents two times the sum of his annualized base salary and highest bonus earned under the Simplicity AIP during the two years immediately preceding his date of termination. There are no reductions necessary to avoid penalties under Section 280G of the Internal Revenue Code related to the foregoing payment to Mr. Luton.

Upon a qualifying termination of employment, which includes termination without cause or resignation for good reason following the occurrence of a change in control, the Severance Plan provides for a lump sum cash payment equal to $555,433, $443,851, $463,960 and $420,320 for Ms. Carandang, Ms. Thompson, Mr. Hanighen and Mr. Reed, respectively, which represents two times the sum of his or her base salary and highest bonus earned under the Simplicity AIP during the two years immediately preceding his or her date of termination. There are no reductions necessary to avoid penalties under Section 280G of the Internal Revenue Code related to the foregoing payments to the named executive officers.

In addition, the amounts in this column include the Deferred Amount and the Pro-Rata Bonus payable to each named executive officer under the Simplicity AIP as follows: (1) for Mr. Luton, his Deferred Amount and Pro-Rata Bonus is $49,926 and $76,000, respectively; (2) for Ms. Carandang, her Deferred Amount and Pro-Rata Bonus is $24,430 and $37,338, respectively; (3) for Ms. Thompson, her Deferred Amount and Pro-Rata Bonus is $19,704 and $29,750, respectively; (4) for Mr. Hanighen, his Deferred Amount and Pro-Rata Bonus is $21,743 and $31,072, respectively; and (5) for Mr. Reed, his Deferred Amount and Pro-Rata Bonus is $18,757 and $29,183, respectively. The terms of the merger agreement provide that the Deferred Amount and the Pro-Rata Award will be paid in a cash lump sum as of the effective time of the merger, which is not conditioned upon the termination of the named executive officer s employment.

(2) The amounts in this column represent the aggregate value of each named executive officer s: (i) Simplicity restricted stock awards for which vesting would be accelerated based on a per share price of $16.68; and (ii) the cash payment in cancellation of the Simplicity stock options, based on a per share value of $16.68, less the applicable per share exercise price. Such vesting and payment is triggered upon the consummation of the merger and is not conditioned upon the termination of the named executive officer s employment. For Mr. Luton, his equity amount represents $132,938 attributable to the cancellation of 22,388 stock options with an exercise price

of less than $16.68 per award and $320,856 attributable to the value of 19,236 Simplicity restricted stock awards for which vesting is accelerated. For Ms. Carandang, her equity amount represents $31,453 attributable to the cancellation of 5,395 stock options and $148,185 attributable to the value of 8,884 Simplicity restricted stock awards for which vesting is accelerated. For Ms. Thompson, her equity amount represents $62,912 attributable to the cancellation of 10,791 stock options and $122,781 attributable to the value of 7,361 Simplicity restricted stock awards for which vesting is accelerated. For Mr. Hanighen, his equity amount represents $112,540 attributable to the value of 6,747 Simplicity restricted stock awards for which vesting is accelerated. For Mr. Reed, his equity amount represents $112,156 attributable to the value of 6,724 Simplicity restricted stock awards for which vesting is accelerated.

(3) The amounts in this column represent the present value of each named executive officer s continued medical, dental and life insurance coverage (at no cost to the executive) for 24 months for Mr. Luton and 18 months for the other named executive officers, based on the cost of the named executive officer s coverage provided by Simplicity Bank in effect as of November 30, 2014. The continued coverage would be provided upon the named executive officer s qualifying termination of employment (as described above) pursuant to his employment agreement or the Severance Plan, as applicable. Present values are calculated using 120% of the applicable short-term federal rate (compounded semi-annually) for November 2014 as published by the Internal Revenue Service, which is 0.47%.

(4) As described in Interests of Simplicity s Directors and Executive Officers Simplicity ESOP above, each named executive officer is entitled to certain payments pursuant to the termination of the Simplicity ESOP immediately prior to the effective time of the merger. Assuming a per share value for Simplicity common stock of $16.68 and account balances as of November 30, 2014, each named executive officer would be entitled to the amount listed in this column as a result of the termination of the Simplicity ESOP and the resulting allocation of the unallocated shares in the Simplicity ESOP suspense account. This additional benefit under the Simplicity ESOP is triggered as a result of the merger and is not conditioned upon the termination of the named executive officer s employment. The amounts in this column do not include the value attributable to the short-year allocation of shares that each named executive officer will receive to his or her account under the Simplicity ESOP, as these benefits are not based on or otherwise related to the merger.

Employee Benefit Matters

The merger agreement limits Simplicity s ability to hire new employees other than to fill vacancies at Simplicity or any of its subsidiaries, to satisfy contractual obligations that existed as of the date of the merger agreement or to fill any vacancies arising after the date of the merger agreement, provided that the new employee is terminable at will and is not hired on terms that would make him or her eligible for any severance or similar benefits as result of the merger other than as provided by the merger agreement.

Simplicity also is prohibited in certain respects from entering into, amending or renewing any employment, consulting, severance, change in control, bonus, salary continuation or similar agreements or arrangements with any director, officer or employee of Simplicity or its subsidiaries and from granting any salary or wage increase (other than routine pay increases for non-executive employees) or increasing employee benefits other than as required by law and other than for the payment of bonuses for the year ending June 30, 2015, to the extent such bonuses have been accrued in accordance with GAAP as of the closing date. Simplicity is required to accrue and pay, prior to the effective time, all benefits existing but theretofore unpaid, under the Simplicity AIP.

HomeStreet retains the exclusive discretion whether to offer employment to the employees of Simplicity and its subsidiaries. Employees who are offered employment with HomeStreet or its subsidiaries must accept or reject the offer of employment within ten (10) business days. HomeStreet shall not have any liability to any former employee or retiree of Simplicity or any of its subsidiaries. Simplicity is required to terminate any obligation to provide individual retiree medical benefits and to make any payments necessary to effect such termination, prior to the effective time.

Simplicity employees who continue with HomeStreet or its subsidiaries generally will be entitled to participate in the HomeStreet benefit plans to the same extent as similarly situated employees of HomeStreet, and with respect to medical insurance coverage, if HomeStreet insurance plans are not immediately available to those employees, those employees will be entitled to COBRA continuation coverage, with HomeStreet covering the costs of coverage in excess of the amounts such employees were required to pay for participation in the relevant Simplicity health insurance plans prior to the effective time, until those employees become eligible for coverage under HomeStreet s benefit plans. HomeStreet is not required to make any grants to any former employee of Simplicity or any of its subsidiaries under any discretionary equity compensation plan of HomeStreet. Employees of Simplicity or Simplicity Bank who continue their employment after the effective time as employees of HomeStreet or any of its subsidiaries will receive credit for tenure with Simplicity for purposes of determining eligibility to participate, vesting of benefits, and for all other purposes (other than accrual of pension benefits) under the benefit plans of HomeStreet or any of its subsidiaries. Continuing employees also will receive credit for service as an employee of Simplicity or any Simplicity subsidiary for purposes of determining length of vacation, paid time off and severance. No employee s service will be recognized to the extent that such recognition would result in a duplication of benefits. No provision of the merger agreement limits HomeStreet s ability to amend or terminate any of HomeStreet s benefit plans in accordance with their terms at any time.

The provisions of the merger agreement relating to employee benefit plans exist solely for the benefit of the parties, and no person has or is entitled to rights as a third party beneficiary, nor do any such provisions create any rights to continued employment.

Simplicity employees who are not offered employment by HomeStreet that is comparable to that employee s position with Simplicity or its Subsidiaries with respect to salary and within 25 miles of the employee s current work location, and who are not then covered by an existing severance or change-of-control agreement with Simplicity or its subsidiaries, and who sign and deliver a termination and release agreement in a specified form, are entitled to receive severance pay in an amount equal to one week s pay for each full year of service, subject to a maximum of 26 weeks of pay and a minimum severance amount equal to two weeks of base pay. Such payments will be made by HomeStreet to each employee on the date such employee s termination and release agreement becomes effective. If Simplicity or any of its Subsidiaries also has a severance pay plan applicable to such an employee, then any amounts paid pursuant to that plan will reduce the amount that employee would otherwise receive, and in no event will there be any duplication of severance pay. Non-continuing employees also will be paid for unused vacation time on the first payroll cycle following the effective time, in accordance with Simplicity s past practice.

The Simplicity ESOP will be terminated immediately prior to the effective time, whereupon Simplicity will direct the Simplicity ESOP trustees to remit a sufficient number of unallocated shares of Simplicity common stock held in the Simplicity ESOP s suspense account to repay the full outstanding balance of the Simplicity ESOP loans. The unallocated shares used to repay the ESOP loans will not be exchanged for any merger consideration. All remaining unallocated shares of Simplicity common stock and other unallocated plan assets, if any, held in the ESOP will be allocated among the participants in accordance with the terms of the ESOP, and all shares of Simplicity common stock held by the ESOP will be converted at the effective time into the right to receive merger consideration. As soon as administratively practicable after the effective time, the account balances in the ESOP will be distributed in accordance with the terms of the ESOP and the requirements of the Internal Revenue Code. Contributions by Simplicity or any Simplicity subsidiary to the ESOP will continue to accrue until the effective time in accordance with the ESOP loan amortization schedule(s) in effect as of the date of the merger agreement.

The Simplicity 401(k) Plan also will be terminated immediately prior to the effective time. As soon as practicable following the effective time, the account balances in such plan will be distributed in accordance with the provisions of the plan and the requirements of the Internal Revenue Code. Employees who continue with HomeStreet and who elect to transfer their Simplicity 401(k) Plan account balances into the HomeStreet 401(k) plan may roll over their outstanding Simplicity 401(k) Plan loan balances to the HomeStreet 401(k) Plan.

Director and Officer Voting Agreements; Indemnification and Insurance

In connection with the merger agreement, HomeStreet entered into voting agreements with certain executive officers and directors of Simplicity. Those agreements provide that the relevant Simplicity directors and officers will vote all shares of Simplicity common stock they beneficially owned or otherwise controlled at the time of entry into the agreements, and all shares they subsequently acquire, in favor of the merger and the related transactions, and prohibited those individuals from transferring any shares of Simplicity common stock they then owned or thereafter acquired (subject to limited exceptions for estate planning purposes and bona fide gifts). In those agreements, HomeStreet also expressly agreed to assume Simplicity s obligations, contractual and otherwise, to indemnify those individuals from and after the effective time. In addition, HomeStreet has agreed, for a period of six years after the effective time of the merger, to maintain, or to cause HomeStreet Bank to maintain, the current directors and officers liability insurance policies maintained by Simplicity (provided, that HomeStreet may substitute policies of at least the same coverage containing terms and conditions which are not materially less favorable) with respect to matters occurring at or prior to the effective time of the merger. HomeStreet is not required to spend, in the aggregate, more than 200% of the annual cost currently paid by Simplicity for its insurance coverage (referred to as the maximum amount), provided that HomeStreet maintains the most advantageous policies of directors and officers insurance obtainable for an annual cost equal to the maximum amount.

Certain Additional Covenants

The merger agreement also contains additional covenants, including, among others, covenants relating to the filing of this joint proxy statement, the listing of the shares of HomeStreet common stock to be issued as merger consideration, access to information of the other company and public announcements with respect to the transactions contemplated by the merger agreement.

Shareholder Meetings and Recommendations of Simplicity s and HomeStreet s Boards of Directors; Termination of Merger Agreement upon Exercise of Fiduciary Duties

Simplicity has agreed to hold a meeting of its stockholders for the purpose of voting upon approval of the merger agreement and the merger, and in addition, it will submit a nonbinding advisory proposal to its stockholders relating to the approval of certain compensation payable to Simplicity s named executive officers in connection with the merger. HomeStreet has agreed to convene a meeting of its shareholders to seek approval of the issuance of the shares of HomeStreet common stock comprising the merger consideration. Each party has agreed to recommend to its shareholders (and including such recommendation in this joint proxy statement) that they approve the merger agreement and the transactions contemplated thereby.

Agreement Not to Solicit Other Offers

The merger agreement required Simplicity, as of the time of its entry into the merger agreement, to cease any discussions or negotiations with any other parties that may be ongoing with respect to the possibility or consideration of any acquisition proposal (as defined in the merger agreement and summarized below), and to use its reasonable best efforts to enforce any confidentiality or similar agreement relating to any prior acquisition proposal, including by requesting the other party to promptly return or destroy any information previously furnished by or on behalf of Simplicity. From the date of the merger agreement through the effective time or the valid termination of the merger agreement, Simplicity may not, directly or indirectly (including through its affiliates or representatives), (i) solicit, initiate or encourage (including by way of furnishing information or assistance), or take any other action designed to facilitate or that is likely to result in, any inquiries or the making of any proposal or offer that constitutes, or is reasonably likely to lead to, any acquisition proposal, (ii) provide any confidential information or data relating to any acquisition proposal, (iii) participate in any discussions or negotiations regarding any acquisition proposal, (iv) waive, terminate, modify or fail to enforce any provision of any contractual standstill or similar obligations of any person other than HomeStreet, (v) approve or recommend, propose to approve or recommend, or execute or enter into, any letter of intent, agreement in principle, merger agreement, asset purchase agreement or share exchange agreement, option agreement or other similar agreement related to any acquisition proposal or propose to do any of the foregoing, or (vi) make or authorize any change in recommendation (as defined in the merger agreement and summarized below).

Nonetheless, if, prior to the Simplicity special meeting, and subject to the nonsolicitation provisions of the merger agreement, if Simplicity s board of directors determines in good faith, after consulting with its outside legal and financial advisors, that the failure to consider an acquisition proposal would breach, or would reasonably be expected to result in a breach of, Simplicity s board of directors fiduciary duties under applicable law, Simplicity may, in response to a bona fide, written acquisition proposal not solicited in violation of the merger agreement, which Simplicity s board of directors determines in good faith constitutes a superior proposal (as defined below) (1) furnish information with respect to itself to any person making such a superior proposal pursuant to a customary confidentiality agreement on terms no more favorable than those provided in the confidentiality agreement with HomeStreet, and (2) participate in discussions or negotiations regarding such a superior proposal. Prior to engaging in such discussions or negotiations, or furnishing such information, Simplicity must provide HomeStreet with three (3) business days prior written notice of its decision to take such action and identifying in detail and with specificity the person making the proposal and all the material terms and conditions of such proposal.

Simplicity may not make a determination that an acquisition proposal constitutes a superior proposal without providing HomeStreet an opportunity, within the three (3) business day period referenced in the preceding sentence, to increase its offer to an amount equal to or greater than the amount of such acquisition proposal, and unless HomeStreet has failed, prior to the expiry of such period, to increase its offer such that HomeStreet s offer is substantially equivalent, from a financial point of view, to that acquisition proposal. For the avoidance of doubt, the right of HomeStreet to increase its offer in response to an acquisition proposal does not constitute an obligation to do so, and upon receiving notice of an acquisition proposal HomeStreet may, instead, take any action that is permitted of HomeStreet under the merger agreement, including without limitation terminating the merger agreement and exercising the remedies set forth therein.

For purposes of the merger agreement:

An acquisition proposal means any inquiry, proposal or offer, filing of any regulatory application or notice (whether in draft or final form) or disclosure of an intention to do any of the foregoing relating to any (w) direct or indirect acquisition or purchase of a business that constitutes 10% or more of the total revenues, net income, assets or deposits of Simplicity and its subsidiaries taken as a whole, (x) direct or indirect acquisition or purchase of any class of equity securities representing 10% or more of the voting power of Simplicity or any of its subsidiaries, (y) tender offer or exchange offer that if consummated would result in any person beneficially owning 10% or more of any class of equity securities of Simplicity or (z) merger, consolidation, business combination, recapitalization, liquidation, dissolution or similar transaction involving Simplicity, other than the transactions contemplated by the merger agreement.

A change in recommendation is any statement, recommendation or solicitation (whether publicly or otherwise) in support of any acquisition proposal, or otherwise that suggests or recommends a material modification to, or the abandonment or termination of, the merger agreement, the merger, or any of the transactions contemplated by the merger agreement.

A superior proposal is a bona fide written proposal made by a third party to acquire, directly or indirectly, more than 50% of the combined voting power of the shares of Simplicity s outstanding common stock or all or substantially all of Simplicity s consolidated assets, which Simplicity s board of directors determines in good faith, after taking into account all legal, financial, regulatory and other aspects of the proposal and the person making the proposal (including any break-up fees, expense reimbursement provisions and conditions to consummation), and after taking into account the advice of Simplicity s financial advisor and outside counsel, (i) is more favorable from a financial point of view to its shareholders than the merger, (ii) is reasonably likely to be consummated on the terms set forth in such written proposal, and (iii) for which financing, to the extent required, is then committed or which, in the good faith judgment of Simplicity s board of directors, is reasonably likely to be obtained by such third party.

Conditions to Complete the Merger

HomeStreet s and Simplicity s respective obligations to complete the merger are subject to the satisfaction or waiver of the following conditions:

the approval of the issuance of shares as merger consideration by HomeStreet s shareholders and the approval of the merger agreement by Simplicity s stockholders;

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- the authorization for listing on the Nasdaq Global Select Market, subject to official notice of issuance, of the HomeStreet common stock to be issued upon the consummation of the merger;
- the receipt of regulatory approvals from the all bank regulatory authorities whose consent or non-objection is required to consummate the transactions contemplated by the merger agreement;
- the issuance of the Permit by the California Commissioner with respect to the HomeStreet common stock to be issued as merger consideration, and the satisfaction or waiver of any conditions or limitations imposed thereby;
- the absence of any legal impediment (including any injunction or other legal or equitable restraint) against the merger or the related transactions;
- the accuracy of the representations and warranties of the other party contained in the merger agreement as of the date on which the merger agreement was entered into and as of the date on which the merger is completed, subject to the materiality standards provided in the merger agreement (and the receipt by each party of an officers certificate from the other party to such effect); and
- the performance by the other party in all material respects of all obligations required to be performed by it under the merger agreement at or prior to the effective time (and the receipt by each party of an officers certificate from the other party to such effect).

In addition, each party benefits from certain conditions which, if not satisfied or waived, would permit that party to terminate the merger agreement.

- Conditions to the obligations of HomeStreet include:
  - actions taken to terminate Simplicity s employee benefit plans (other than for health and welfare plans), including retiree medical coverage, its 401(k) plan, its executive compensation plans (other than for certain severance benefits payable to specified employees) and the ESOP; and
  - minimum financial condition requirements of Simplicity, including as of the last day of the month prior to the effective time (i) total deposits of not less than $575 million, and (ii) tangible book value of not less than $125 million.
- Conditions to the obligations of Simplicity include a requirement that the average closing price being at least $15 per share, unless HomeStreet shall have agreed in a written notice delivered to Simplicity at least one business day prior to the closing date, to increase the exchange ratio to the quotient of (x) $15 divided by (y) the average closing price.

Neither Simplicity nor HomeStreet can provide assurance as to when or if all of the conditions to the merger can or will be satisfied or waived by the appropriate party. As of the date of this joint proxy statement, neither Simplicity nor HomeStreet has reason to believe that any of these conditions will not be satisfied.

Termination of the Merger Agreement

The merger agreement can be terminated at any time prior to completion of the merger in the following circumstances:

- by mutual consent of HomeStreet and Simplicity, if authorized by the board of directors of each;

- by either HomeStreet or Simplicity if any governmental entity whose regulatory approval is required for consummation of the merger has denied approval of any of the transactions contemplated by the merger agreement and such denial has become final and nonappealable; or if any governmental entity of competent jurisdiction has issued a final nonappealable order permanently enjoining or otherwise prohibiting or making illegal the consummation of any of the material transactions contemplated by the merger agreement; unless the failure to obtain a requisite regulatory approval is due to the failure of the party seeking to terminate the merger agreement to perform or observe its covenants and agreements under the merger agreement;

by either HomeStreet or Simplicity if the merger has not been completed on or before June 30, 2015, unless the failure of the merger to be completed by such date is due to the failure of the party seeking to terminate the merger agreement to perform or observe its covenants and agreements under the merger agreement;

by either HomeStreet or Simplicity if there is a breach of any of the covenants or agreements or any of the representations or warranties set forth in the merger agreement on the part of the other party which either individually or in the aggregate would constitute the failure of a closing condition of the terminating party and which is either not reasonably capable of being cured or not cured within the earlier of the termination date or the date 30 days following written notice to the party committing such breach (in each case, provided that the terminating party is not then in breach of any representation, warranty, covenant or other agreement contained in the merger agreement in a manner that would constitute the failure of a closing condition);

by either HomeStreet or Simplicity if (1) the HomeStreet special meeting has concluded without the approval of the HomeStreet stock issuance proposal or (2) the Simplicity special meeting has concluded without the approval of the Simplicity merger proposal (in each case, provided that the terminating party has complied with its obligations with respect to holding its special meeting and recommendation of the merger);

by HomeStreet, before approval of the Simplicity merger proposal, if Simplicity s board of directors (1) fails to recommend that Simplicity stockholders approve the Simplicity merger proposal, fails to include such recommendation in this joint proxy statement, withdraws or modifies such recommendation in a manner adverse to HomeStreet or, in the case of a tender or exchange offer, fails to recommend rejection of such offer within 10 business days after the commencement of the offer, or (2) materially breaches certain obligations, including with respect to the non-solicitation of acquisition proposals or the calling of a meeting of its stockholders;

By HomeStreet if Simplicity has received a superior proposal after compliance with the non-solicitation terms of the merger agreement and the Simplicity board of directors has made a determination to accept such Superior Proposal;

By HomeStreet or Simplicity if the issuance of the Permit by the California Commissioner with respect to the HomeStreet common stock to be issued as merger consideration is denied in a final and non-appealable determination, or if the Permit has been revoked prior to the effective time; or

By Simplicity if the average closing price is less than $15 per share, unless HomeStreet shall have agreed in a written notice delivered to Simplicity at least one business day prior to the closing date, to increase the exchange ratio to the quotient of (x) $15 divided by (y) the average closing price.

Effect of Termination

If the merger agreement is terminated, it will become void and have no effect and neither party will have any liability in connection with the merger agreement or the transactions contemplated by the merger agreement, except that each party will remain liable for any liabilities or damages arising out of its fraudulent conduct or any willful, knowing and material breach of any provision of the merger agreement and designated provisions of the merger agreement will survive the termination, including those relating to payment of fees and expenses and the confidential treatment of information.

Termination Fee

Simplicity will pay HomeStreet a termination fee of $5,272,612 if the merger agreement is terminated in the following circumstances:

- if the merger agreement is terminated by HomeStreet because Simplicity s board of directors has determined to accept a superior proposal (as defined in the merger agreement and summarized on page

129 above), or upon the commencement or announcement of a tender or exchange offer for 15% or more of Simplicity s common stock and Simplicity fails to recommend rejection of such offer within 10 business days after the commencement of the offer, then Simplicity must pay the termination fee to HomeStreet on the second business day following the termination of the merger agreement; or

if the merger agreement is terminated: (i) by HomeStreet because of any reckless or intentional breach of the merger agreement or because the Simplicity board of directors fails to convene the special meeting of stockholders, withdraws, conditions or qualifies its recommendation that the Simplicity stockholders approve the merger agreement or breaches the non-solicitation provision of the merger agreement and the merger and at the time of such termination no vote of Simplicity stockholders contemplated by the merger agreement has been taken; or (ii) by HomeStreet or Simplicity because of a failure to obtain the approval of Simplicity s stockholders at the Simplicity special meeting or any adjournment thereof, and if an acquisition proposal shall have been publicly announced or otherwise communicated or made known to the board of directors or senior management of Simplicity, and if within 12 months after termination Simplicity or any of its subsidiaries enters into an agreement with respect to a control transaction (as defined in the merger agreement and summarized below), then Simplicity must pay the termination fee to HomeStreet on the date of execution of a definitive agreement relating to such control transaction or, if there is no such agreement, then upon consummation of any such control transaction.

For purposes of the merger agreement, a control transaction means (i) the acquisition of a majority of the voting power of the outstanding securities of Simplicity or its subsidiaries or a majority of the assets of Simplicity or its subsidiaries, (ii) any issuance of securities resulting in the ownership by any person of more than 50% of the voting power of Simplicity or its subsidiaries or by any person other than Simplicity of more than 50% of the voting power of Simplicity or its subsidiaries, or (iii) any merger, consolidation or other business combination transaction involving Simplicity or any of its subsidiaries as a result of which the shareholders of Simplicity Bank cease to own, in the aggregate, at least 50% of the total voting power of the entity surviving or resulting from such transaction.

Specific Performance

The merger agreement also permits each party to obtain an injunction or injunctions, or any other appropriate form of specific performance or equitable relief, to prevent breaches of the merger agreement and to enforce specifically the terms and provisions hereof in any court of competent jurisdiction, in addition to any other remedy to which such party is entitled under the terms of the merger agreement, at law or in equity. However, specific performance is not available to HomeStreet at any time when there exists an acquisition proposal that Simplicity s board of directors has advised HomeStreet it believes in good faith may be or may be negotiated in such a manner as to become a superior proposal, or at a time or under circumstances when Simplicity has announced a change in recommendation.

Expenses and Fees

All costs and expenses incurred in connection with the merger agreement and the transactions contemplated thereby will be paid by the party incurring such expense.

Amendment, Waiver and Extension of the Merger Agreement

Subject to compliance with applicable law, the merger agreement may be amended by the parties at any time before or after approval of the matters presented in connection with merger by the shareholders of HomeStreet and Simplicity, except that after approval of the merger agreement by the respective shareholders of HomeStreet or Simplicity, there may not be, without further approval of such shareholders, any amendment of the merger agreement that changes the amount or the form of the consideration to be delivered to holders of Simplicity common stock or that otherwise requires further approval of such shareholders under applicable law.

At any time prior to the effective time, the parties may, to the extent legally allowed, extend the time for the performance of any of the obligations or other acts of the other party, waive any inaccuracies in the representations and warranties contained in the merger agreement or in any document delivered pursuant to the merger agreement, and waive compliance with any of the agreements or satisfaction of any conditions contained in the merger agreement, except that after approval of the merger agreement by the respective shareholders of HomeStreet or Simplicity, there may not be, without further approval of such shareholders, any extension or waiver of the merger agreement or any portion thereof that reduces the amount or changes the form of the consideration to be delivered to the holders of Simplicity common stock or that otherwise requires further approval under applicable law.

Litigation Relating to the Merger

On October 10, 2014, shortly after the public announcement that the parties had entered into the merger agreement, a putative class action lawsuit styled Bushansky v. Simplicity Bancorp, Inc., et al., Case No. BC560508, was filed in the Superior Court of the State of California, County of Los Angeles. The named plaintiff in this lawsuit seeks to be designated as a class representative, and to have his counsel designated as class counsel. The plaintiff alleges that the directors of Simplicity breached their fiduciary duties to Simplicity s stockholders by, among other things, attempting to prevent Simplicity s stockholders from realizing the benefits of [Simplicity s] strong financial position, having caused Simplicity to agree to an inadequate price and employing an ineffective process to consummate the merger. The plaintiff in this lawsuit further asserts that HomeStreet aided and abetted Simplicity s directors alleged breaches of fiduciary duty.

On December 29, 2014, another putative class action lawsuit was filed in the Circuit Court for Baltimore City, Maryland. This case is styled Karlvester Brooks v. Simplicity Bancorp, et al., Case No. 24C14008199, and alleges substantially identical claims against Simplicity, Simplicity s directors and HomeStreet as the Bushansky lawsuit. This lawsuit also alleges that Simplicity s directors derived an improper personal benefit in connection with the transaction. On the basis of these assertions the plaintiffs seek, among other things, to enjoin the merger. Simplicity and HomeStreet intend to contest the claims vigorously.

Regulatory Approvals Required for Consummation of the Merger

Completion of the merger is subject to prior receipt of certain approvals and consents required to be obtained from applicable governmental and regulatory authorities, without any conditions, restrictions or requirements which would, individually or in the aggregate: (i) prohibit or materially limit the ownership or operation by HomeStreet or HomeStreet Bank of all or any material portion of the business or assets of Simplicity or any Simplicity Subsidiary, (ii) compel HomeStreet or HomeStreet Bank to dispose of or hold separate all or any material portion of the business or assets of Simplicity or any Simplicity Subsidiary, or (iii) impose a material compliance burden, penalty or obligation on HomeStreet or HomeStreet Bank resulting from noncompliance by Simplicity with its regulatory obligations. Subject to the terms and conditions of the merger agreement, HomeStreet and Simplicity have agreed to use their reasonable best efforts and cooperate to promptly prepare and file all necessary documentation and to obtain as promptly as practicable all regulatory approvals necessary or advisable to complete the transactions contemplated by the merger agreement. These approvals include, among others, approval from the WDFI and the FDIC. The approval of the Federal Reserve is also required unless the formal application requirement is waived by the Federal Reserve. In addition, notice of the proposed bank merger is required to be filed with the OCC. HomeStreet, HomeStreet Bank and Simplicity Bank have filed applications and notifications to obtain the required regulatory approvals and have received approvals from WDFI and the FDIC and an acknowledgement of receipt of notice from the OCC. HomeStreet has also received from the Federal Reserve a waiver from the formal application process with respect to the merger. However, such approvals and waivers may be withdrawn under certain conditions.

HomeStreet and Simplicity are also seeking a fairness hearing from the California Department of Business Oversight in order to rely on an exemption from registration for the shares of HomeStreet common stock to be issued in the transaction, however, that fairness hearing is not part of the banking regulatory approval required to complete the merger.

Washington Department of Financial Institutions

The transactions contemplated by the merger agreement are subject to approval by the WDFI pursuant to RCW 32.32.500, which approval was granted on November 4, 2014, subject to receipt by the WDFI of certain documents to be completed in connection with the closing of the merger and the bank merger, including the articles and plan of merger for each of the proposed mergers.

Federal Deposit Insurance Corporation

The merger of Simplicity Bank with and into HomeStreet Bank is subject to approval by the FDIC pursuant to the Bank Merger Act. HomeStreet Bank has submitted an application pursuant to the Bank Merger Act seeking the prior approval of the FDIC for Simplicity Bank to merge with and into HomeStreet Bank. Such approval was obtained on November 25, 2014.

The FDIC takes into consideration a number of factors when acting on applications under the Bank Merger Act. These factors include the financial and managerial resources (including consideration of the competence, experience, and integrity of the officers, directors, and principal shareholders) and future prospects of the combined organization. The FDIC also considers the effectiveness of the applicant in combatting money laundering, the convenience and needs of the communities to be served, as well as the extent to which the proposal would result in greater or more concentrated risks to the stability of the U.S. banking or financial system. The FDIC may not approve a proposal that would have significant adverse effects on competition or on the concentration of resources in any banking market.

In reviewing the convenience and needs of the communities to be serviced, the FDIC will consider the records of performance of the relevant insured depository institutions under the Community Reinvestment Act of 1977 (which we refer to as the CRA). In their most recent respective CRA examinations, HomeStreet Bank has received an overall outstanding regulatory rating and Simplicity has received an overall satisfactory regulatory rating.

Furthermore, the Bank Merger Act and applicable regulations require published notice of, and the opportunity for public comment on, these applications. The FDIC takes into account the views of third party commenters, particularly on the subject of the merging parties service to their respective communities, and any hearing, meeting or comments provided by third parties could prolong the period during which the applications are under review by the Board and the FDIC.

Transactions approved under the Bank Merger Act generally may not be completed until 30 days after the approval of the applicable federal agency is received, during which time the Department of Justice (which we refer to as the DOJ) may challenge the transaction on antitrust grounds. With the approval of the applicable federal agency and the concurrence of the DOJ, the waiting period may be reduced to no less than 15 days. The FDIC approval specifies a waiting period of 15 days. The commencement of an antitrust action would stay the effectiveness of such an approval unless a court specifically ordered otherwise. In reviewing the merger, the DOJ could analyze the merger s effect on competition differently than the FDIC, and thus it is possible that the DOJ could reach a different conclusion than the Board or FDIC regarding the merger s effects on competition. A determination by the DOJ not to object to the merger may not prevent the filing of antitrust actions by private persons or state attorneys general.

Federal Reserve Board

The transaction contemplated by the merger agreement is subject to approval by the Federal Reserve pursuant to the Home Owners Loan Act unless the Federal Reserve Board grants a waiver of the formal application process upon request of the acquiror. HomeStreet has received from the Federal Reserve a waiver from the formal application process with respect to the Merger, however, such waiver may be withdrawn under certain circumstances.

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Office of the Comptroller of the Currency

Pursuant to 12 CFR § 163.22(b)(1)(i) and § 163.22(h)(1), Simplicity Bank submitted a notice of merger and a copy of the Interagency Merger Application to the OCC on September 25,2014. On November 4, 2014, the OCC acknowledged receipt of the notice.

In addition to approval of the merger application, closing of the merger is conditioned on Simplicity Bank receiving approval from the OCC for an amendment to Simplicity Bank s charter to allow the merger and bank merger to proceed, which approval has been received by Simplicity Bank.

Additional Regulatory Approvals and Notices

Notifications and/or applications requesting approval may be submitted to various other federal and state regulatory authorities and self-regulatory organizations. We have received confirmation from the Federal Trade Commission that no Hart-Scott-Rodino filing will be required if we receive approval of the bank merger from the FDIC and a waiver of formal approval from the Federal Reserve.

HomeStreet and Simplicity believe that the merger does not raise significant regulatory concerns and that we will be able to obtain all requisite regulatory approvals. Because HomeStreet does not currently operate any branches in the market where Simplicity s branches are operating, we do not anticipate any market-based competitive concerns. However, neither HomeStreet nor Simplicity can assure you that all of the regulatory approvals described above will be obtained and, if obtained, we cannot assure you as to the timing of any such approvals, our ability to obtain the approvals on satisfactory terms or the absence of any litigation challenging such approvals. In addition, there can be no assurance that such approvals will not impose conditions or requirements that, individually or in the aggregate, would or could reasonably be expected to have a material adverse effect on the financial condition, results of operations, assets or business of the combined company.

Neither HomeStreet nor Simplicity is aware of any material governmental approvals or actions that are required for completion of the merger other than the filing of the Articles of Merger and Plan of Merger with the Secretary of State of each of Washington state and the state of Maryland and those approvals described above. It is presently contemplated that if any such additional governmental approvals or actions are required, those approvals or actions will be sought. There can be no assurance, however, that any additional approvals or actions will be obtained.

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ACCOUNTING TREATMENT

In accordance with current accounting guidance, the merger will be accounted for using the acquisition method. The result of this is that (1) the recorded assets and liabilities of HomeStreet will be carried forward at their recorded amounts, (2) HomeStreet historical operating results will be unchanged for the prior periods being reported on and (3) the assets and liabilities of Simplicity will be adjusted to fair value at the date HomeStreet assumes control of the combined entities (the merger date). In addition, all identifiable intangibles will be recorded at fair value and included as part of the net assets acquired. The amount by which the purchase price, consisting of the value of cash and shares of HomeStreet common stock to be issued to former Simplicity stockholders and shares of HomeStreet common stock to be issued to former holders of Simplicity stock options, warrants and restricted stock units, exceeds the fair value of the net assets including identifiable intangibles of Simplicity at the merger date will be reported as goodwill. Goodwill is evaluated for impairment at least annually and may be adjusted from time to time if circumstances indicate that the current carrying value may not be recoverable. Identified definite-lived intangibles will be amortized over their estimated lives. Further, the acquisition method of accounting results in the operating results of Simplicity being included in the operating results of HomeStreet from the merger date forward.

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UNITED STATES FEDERAL INCOME TAX CONSEQUENCES OF THE MERGER

The following general discussion sets forth the anticipated material United States federal income tax consequences of the merger to U.S. holders (as defined below) of Simplicity common stock who exchange their shares of Simplicity common stock for shares of HomeStreet common stock and cash in the merger. This discussion does not address any tax consequences arising under the laws of any state, local or foreign jurisdiction, or under any United States federal laws other than those pertaining to income tax. This discussion is based upon the Code, the regulations promulgated under the Code and court and administrative rulings and decisions, all as in effect on the date of this joint proxy statement. These laws may change, possibly retroactively, and any change could affect the accuracy of the statements and conclusions set forth in this discussion.

This discussion addresses only those Simplicity common shareholders that hold their shares of Simplicity common stock as a capital asset within the meaning of Section 1221 of the Code (generally, property held for investment). Further, this discussion does not address all aspects of United States federal income taxation that may be relevant to you in light of your particular circumstances or that may be applicable to you if you are subject to Annual treatment under the United States federal income tax laws, including if you are:

- a financial institution;
- a tax-exempt organization;
- an S corporation or other pass-through entity (or an investor in an S corporation or other pass-through entity);
- an insurance company;
- a mutual fund;
- a dealer or broker in stocks and securities, or currencies;
- a trader in securities that elects mark-to-market treatment;
- a holder of Simplicity common stock that received Simplicity common stock through the exercise of an employee stock option, through a tax qualified retirement plan or otherwise as compensation;
- a person that is not a U.S. holder (as defined below);

- a person that has a functional currency other than the U.S. dollar;
- a holder of Simplicity common stock that holds Simplicity common stock as part of a hedge, straddle, constructive sale, conversion or other integrated transaction; or
- a United States expatriate.

In addition, the discussion does not address any alternative minimum tax or any state, local or foreign tax consequences of the merger, nor does it address any tax consequences arising under the unearned income Medicare contribution tax pursuant to the Health Care and Education Reconciliation Act of 2010. Determining the actual tax consequences of the merger to you may be complex. They will depend on your specific situation and on factors that are not within the control of Simplicity or HomeStreet. You should consult with your own tax advisor as to the tax consequences of the merger in your particular circumstances.

For purposes of this discussion, the term U.S. holder means a beneficial owner of Simplicity common stock that is for United States federal income tax purposes (1) an individual citizen or resident of the United States, (2) a corporation, or entity treated as a corporation, organized in or under the laws of the United States or any state thereof or the District of Columbia, (3) a trust if (A) a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust or (B) such trust has made a valid election to be treated as a U.S. person for U.S. federal income tax purposes or (4) an estate, the income of which is includible in gross income for U.S. federal income tax purposes regardless of its source.

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The United States federal income tax consequences to a partner in an entity or arrangement that is treated as a partnership for United States federal income tax purposes and that holds Simplicity common stock generally will depend on the status of the partner and the activities of the partnership. Partners in a partnership holding Simplicity common stock should consult their own tax advisors.

Tax Consequences of the Merger Generally

The parties intend for the merger to qualify as a reorganization within the meaning of Section 368(a) of the Code. HomeStreet and Simplicity have not sought and will not seek any ruling from the Internal Revenue Service regarding any matters relating to the merger, and as a result, there can be no assurance that the Internal Revenue Service will not assert, or that a court would not sustain, a position contrary to any of the conclusions set forth below. In addition, if any of the representations or assumptions upon which those opinions are based are inconsistent with the actual facts, the United States federal income tax consequences of the merger could be adversely affected.

Accordingly, and on the basis of the foregoing opinions, as a result of the merger qualifying as a reorganization within the meaning of Section 368(a) of the Code, upon exchanging your Simplicity common stock for HomeStreet common stock, you generally will not recognize gain or loss.

The aggregate tax basis in the shares of HomeStreet common stock that you receive in the merger will equal your aggregate adjusted tax basis in the Simplicity common stock you surrender. Your holding period for the shares of HomeStreet common stock that you receive in the merger will include your holding period for the shares of Simplicity common stock that you surrender in the exchange.

Cash Instead of a Fractional Share

If you receive cash instead of a fractional share of HomeStreet common stock, you will be treated as having received the fractional share of HomeStreet common stock pursuant to the merger and then as having sold that fractional share of HomeStreet common stock for cash. As a result, you generally will recognize gain or loss equal to the difference between the amount of cash received and the basis allocable to your fractional share of HomeStreet common stock. This gain or loss generally will be capital gain or loss, and will be long-term capital gain or loss if, as of the effective date of the merger, the holding period for the Simplicity common stock surrendered therefor is greater than one year. The deductibility of capital losses is subject to limitations.

Backup Withholding

If you are a non-corporate holder of Simplicity common stock you may be subject to information reporting and backup withholding (currently at a rate of 28%) on any cash payments you receive. You generally will not be subject to backup withholding, however, if you:

- furnish a correct taxpayer identification number, certify that you are not subject to backup withholding on the substitute Form W-9 or successor form included in the election form/letter of transmittal you will receive and otherwise comply with all the applicable requirements of the backup withholding rules; or

- provide proof that you are otherwise exempt from backup withholding.

Any amounts withheld under the backup withholding rules will generally be allowed as a refund or credit against your United States federal income tax liability, provided you timely furnish the required information to the Internal Revenue Service.

This summary of material United States federal income tax consequences is for general information only and is not tax advice. You are urged to consult your tax advisor with respect to the application of United States federal income tax laws to your particular situation as well as any tax consequences arising under the United States federal estate or gift tax rules, or under the laws of any state, local, foreign or other taxing jurisdiction.

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SIMPLICITY BANCORP PROPOSAL 2

ADVISORY VOTE ON MERGER-RELATED EXECUTIVE COMPENSATION

As required by the federal securities laws, Simplicity is providing its stockholders with the opportunity to cast a non-binding, advisory vote on the compensation that may become payable to its named executive officers in connection with the completion of the merger, as disclosed in the section of this document captioned Description of the Merger Merger-Related Executive Compensation for Simplicity s Named Executive Officers, and the related table and narratives.

Your vote is requested. Simplicity believes that the information regarding compensation that may become payable to its named executive officers in connection with the completion of the merger, as disclosed in the section of this joint proxy statement captioned Description of the Merger Merger-Related Executive Compensation for Simplicity s Named Executive Officers is reasonable and demonstrates that Simplicity s executive compensation program was designed appropriately and structured to ensure the retention of talented executives and a strong alignment with the long-term interests of Simplicity s stockholders. This vote is not intended to address any specific item of compensation, but rather the overall compensation that may become payable to Simplicity s named executive officers in connection with the completion of the merger. In addition, this vote is separate and independent from the vote of stockholders to approve the merger agreement. However, the compensation will not be payable in the event the merger is not completed. Simplicity asks that its stockholders vote FOR the following resolution:

RESOLVED, that the compensation that may become payable to Simplicity s named executive officers in connection with the completion of the merger, as disclosed in the section captioned Description of the Merger Merger-Related Executive Compensation for Simplicity s Named Executive Officers, and the related tables and narrative, is hereby approved.

This vote is advisory and therefore, it will not be binding on Simplicity, nor will it overrule any prior decision of Simplicity or require Simplicity s board of directors (or any committee thereof) to take any action. However, Simplicity s board of directors values the opinions of Simplicity s stockholders, and to the extent that there is any significant vote against the named executive officer compensation as disclosed in this document, Simplicity s board of directors will consider stockholders concerns and will evaluate whether any actions are necessary to address those concerns. Simplicity s board of directors will consider the affirmative vote of the holders of a majority of the votes cast of Simplicity common stock entitled to vote on the matter FOR the foregoing resolution as advisory approval of the compensation that may become payable to Simplicity s named executive officers in connection with the completion of the merger. **Simplicity s Board of Directors unanimously recommends that stockholders vote FOR the approval of the above resolution.**

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INFORMATION ABOUT HOMESTREET

Note: References in this section to first-person pronouns such as we, us and our, and terms of similar context, refer to HomeStreet and its consolidated subsidiaries, including HomeStreet Bank, unless otherwise specified. References to the Bank in this section refer to HomeStreet Bank.

Business

General

HomeStreet is a diversified financial services company founded in 1921 and headquartered in Seattle, Washington, serving customers primarily in the Pacific Northwest, California and Hawaii. HomeStreet is principally engaged in real estate lending, including mortgage banking activities, and commercial and consumer banking. Our primary subsidiaries are HomeStreet Bank and HomeStreet Capital Corporation. HomeStreet Bank is a Washington state-chartered savings bank that provides mortgage and commercial loans, deposit products and services, non-deposit investment products, private banking and cash management services. Our primary loan products include single family residential mortgages, loans secured by commercial real estate, construction loans for residential and commercial real estate projects, commercial business loans and agricultural loans. HomeStreet Capital Corporation, a Washington corporation, originates, sells and services multifamily mortgage loans under the Fannie Mae Delegated Underwriting and Servicing Program (DUS®)[1] in conjunction with HomeStreet Bank. Doing business as HomeStreet Insurance Agency, we provide insurance products and services for consumers and businesses. We also offer single family home loans through our partial ownership in an affiliated business arrangement known as WMS Series LLC (WMS LLC), whose businesses are known as Windermere Mortgage Services and Penrith Home Loans. At September 30, 2014, we had total assets of $3.47 billion.

We generate revenue by earning net interest income and noninterest income. Net interest income is primarily the difference between our interest income earned on loans and investment securities less the interest we pay on deposits and other borrowings. We earn noninterest income from the origination, sale and servicing of loans and from fees earned on deposit services and investment and insurance sales.

At November 3, 2014, we had a network of 33 bank branches in the Puget Sound, Eastern and Southwest regions of Washington state, Portland, Oregon and Hawaii, as well as 55 stand-alone lending centers located in these same areas and additionally in California, Arizona, the Eugene and Salem regions of Oregon, and in the Boise and northern regions of Idaho. WMS LLC provides point-of-sale loan origination services at 42 Windermere Real Estate offices in Washington and Oregon.

We operate two business segments: Commercial and Consumer Banking and Mortgage Banking. For a discussion of operating results of these lines of business, see Business Segments within Management s Discussion and Analysis of this joint proxy statement and in our Annual Report on Form 10-K for the fiscal year ended December 31, 2014, which is incorporated herein by reference.

Commercial and Consumer Banking. We provide diversified financial products and services to our commercial and consumer customers through personal service at bank branches and through ATMs, online, mobile and telephone banking. These products and services include deposit products; residential, consumer and business portfolio loans; investment products; insurance products and cash management services. We originate residential and commercial construction loans, bridge loans and permanent loans for our portfolio primarily on single family residences, and on office, retail, industrial and multifamily property types.

Mortgage Banking. We originate and purchase single family mortgage loans for sale in the secondary markets. Most of our single family mortgage loans are originated on a retail basis by HomeStreet loan officers. We also purchase mortgage loans from WMS LLC through a correspondent arrangement with that company. The majority of our mortgage loans are sold to or securitized by Fannie Mae, Freddie Mac or Ginnie Mae, while we retain the

[1] DUS® is a registered trademark of Fannie Mae.

right to service these loans. A small percentage of our loans are brokered to loan wholesalers or sold on a servicing-released basis to correspondent lenders. We manage the loan funding and the interest rate risk associated with the secondary market loan sales and the retained servicing rights within this business segment.

Shares of our common stock are traded on the Nasdaq Global Select Market under the symbol HMST.

Recent Acquisitions

On November 1, 2013, HomeStreet completed its acquisitions of Fortune Bank (Fortune), a primarily commercial bank located in Seattle, and YNB Financial Services Corp. (YNB), the parent company of Yakima National Bank headquarted in Yakima, Washington.

On December 6, 2013, HomeStreet Bank acquired two retail deposit branches and certain related assets from AmericanWest Bank, a Washington state-chartered bank. These branches are located on Bainbridge Island and in West Seattle.

Other Recent Developments

HomeStreet Bank was recently evaluated, assessed and assigned its respective mortgage origination and servicer (collectively servicer) ratings by both Moody s Investors Service (Moody s) and Fitch Ratings Inc. (Fitch). Moody s assigned a servicer quality assessment of SQ4+ as a primary servicer of prime residential mortgage loans. Fitch has assigned a residential mortgage servicer rating for prime product of RPS3-; outlook stable. The Bank initiated this process as part of its mortgage banking strategy to potentially expand its loan investor markets and provide greater liquidity. We expect to continue to undergo these review processes in the future. For additional information please visit www.moodys.com and www.fitchratings.com. Information from these sites is not a part of this report and is not incorporated herein.

In the first half of 2014, HomeStreet sold two pools of residential loans, while retaining the right to service such loans. The first pool was comprised of fixed-rate residential mortgage loans with outstanding principal balances of approximately $56 million. The second pool was comprised of adjustable rate residential mortgage loans with outstanding principal balances of approximately $211 million. The mortgage loans subject to these sales are located in Washington state, Oregon, Idaho and Hawaii, and closed in the first half of 2014.

On June 30, 2014 HomeStreet Bank completed the sale of certain mortgage servicing relating to single family mortgage loans serviced for Fannie Mae with an aggregate unpaid principle balance of approximately $2.96 billion to SunTrust Mortgage, Inc. The sale represents approximately 24% percent of HomeStreet s total single family mortgage servicing portfolio as of March 31, 2014 and resulted in a net gain of approximately $4.7 million in mortgage servicing income for the quarter ending June 30, 2014.

Business Strategy

During 2013, significant progress was made in building a strong foundation for achieving growth and diversification. We grew our Commercial and Consumer Banking segment by expanding our business development capacity and geographic footprint through hiring additional loan officers, opening two de novo bank branches, purchasing two bank branches and acquiring two community banks. In our Mortgage Banking segment, we continued to build on our heritage as a single family mortgage lender by increasing the number of mortgage lending offices within our current footprint as well as expanding into California and Arizona and by targeted hiring throughout our network of mortgage lending offices. We have hired additional purchase-oriented lending officers in order to help mitigate the impact of the transition to a purchase mortgage market and reduced refinancing activity.

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We are pursuing the following strategies in our business segments:

Commercial and Consumer Banking.

Our Commercial and Consumer Banking strategy involves growth through expansion while improving operations and productivity to drive cost efficiencies. Through our recent acquisitions of Fortune and YNB, we increased our portfolio of commercial business loans and added experienced commercial lending officers and managers. We increased our presence in the Puget Sound area through the Fortune acquisition and expanded into central and eastern Washington through our acquisition of YNB. We plan to expand our commercial real estate business, with a focus on our multifamily mortgage origination business, particularly through our Fannie Mae DUS origination and servicing relationships. We plan to expand beyond our current markets by forming strategic alliances with multifamily property service providers inside and outside our existing lending areas. We expect to continue to benefit from being one of only 25 companies nationally that is an approved Fannie Mae DUS seller and servicer. In addition, we have historically supported our DUS program by providing new construction and short-term bridge loans to experienced borrowers who intend to build or purchase apartment buildings for renovation, which we then seek to replace with permanent financing upon completion of the projects.

We also originate commercial construction real estate loans, bridge loans and permanent loans for our portfolio, primarily on office, retail, industrial and multifamily property types located within HomeStreet s geographic footprint. We also may place loans with capital market sources, such as life insurance companies.

Our Commercial and Consumer Banking strategy also involves the expansion of our retail deposit branch network, primarily focusing on high-growth areas of Puget Sound, in order to build convenience and market share. In connection with this strategy, we opened two de novo branches during 2013 and acquired two retail deposit branches from AmericanWest Bank in the fourth quarter of 2013. In 2014, we opened three de novo branches in Seattle. We are also in the process of growing our consumer banking business in central and eastern Washington through our 2013 acquisition of YNB, which allowed us to add four retail deposit branches in those regions. The merger represents our most significant expansion to date, and will establish our Southern California presence with seven retail deposit branch locations.

We intend to continue to add de novo retail deposit branches in new and existing markets. We seek to meet the financial needs of our consumer and business customers by providing targeted banking products and services, investment services and products, and insurance products through our bank branches and through dedicated investment advisors, insurance agents and business banking officers. We intend to grow our network of retail deposit branches and in turn grow our core deposits and increase business deposits from new cash management and business lending customers.

Mortgage Banking.

We have leveraged our reputation for high quality service and reliable loan closing to increase our single family mortgage market share significantly over the last four years. We plan to continue to grow our business through targeted hiring of loan originators with successful track records and an emphasis on purchase mortgage transactions. We intend to continue to focus on conventional conforming and government insured or guaranteed single family mortgage origination. We also expect to use portfolio lending to complement secondary market lending, particularly for well-qualified borrowers with loan sizes greater than the conventional conforming limits.

Market and Competition

The financial services industry is highly competitive. We compete with banks, savings and loan associations, credit unions, mortgage banking companies, insurance companies, finance companies, and investment and mutual fund companies. In particular, we compete with several financial institutions with greater resources, including the capacity to make larger loans, fund extensive advertising and offer a broader array of products and

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services. The number of competitors for middle-market business customers has, however, decreased in recent years due to bank failures and consolidations. At the same time, national banks have been focused on larger customers to achieve economies of scale in lending and depository relationships and have also consolidated business banking operations and support and reduced service levels in the Pacific Northwest. We have taken advantage of the failures and takeovers of certain of our competitors by recruiting well-qualified employees and attracting new customers who seek long-term stability, local decision-making, quality services, products and expertise. We believe there is a significant opportunity for a well-capitalized, community-focused bank that emphasizes responsive and personalized service to provide a full range of financial services to small- and middle-market commercial and consumer customers in those markets where we do business.

In addition, we believe we are well positioned to take advantage of changes in the single family mortgage origination and servicing industry that have helped to reduce the number of competitors. The mortgage industry is compliance-intensive and requires significant expertise and internal control systems to ensure mortgage loan origination and servicing providers meet all origination, processing, underwriting, servicing and disclosure requirements. These requirements are causing some competitors to exit the industry. New entrants must make significant investments in experienced personnel and annualized systems to manage the compliance process. These investments represent a significant barrier to entry. In addition, lending in conventional and government guaranteed or insured mortgage products, including FHA and VA loans, requires significantly higher capitalization than had previously been required for mortgage brokers and non-bank mortgage companies.

Our single family mortgage origination and servicing business is highly dependent upon compliance with underwriting and servicing guidelines of Fannie Mae, Freddie Mac, FHA, VA and Ginnie Mae as well as a myriad of federal and state consumer compliance regulations. Our demonstrated expertise in these compliance activities, together with our significant volume of lending in low- and moderate-income areas and direct community investment, contribute to our uninterrupted record of Outstanding Community Reinvestment Act (CRA) ratings since 1986. We believe our ability to maintain our historically strong compliance culture represents a significant competitive advantage.

Employees

As of September 30, 2014 HomeStreet employed 1,598 full-time equivalent employees compared to 1,502 full-time equivalents at December 31, 2013.

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

Cautionary Note about Forward Looking Statements. This section of this joint proxy statement and the documents incorporated by reference contain, in addition to historical information, forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act. These statements relate to our future plans, objectives, expectations, intentions and financial performance, and assumptions that underlie these statements. When used in this joint proxy statement, terms such as anticipates, believes, continue, could, estimates, expects, intends, may, plans, potential, predicts, should, or will or the negative other comparable terms are intended to identify such forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors that may cause our actual results to differ from the expectation, and to cause our management to deviate from the plans, expressed or implied by these statements. All statements other than statements of historical fact are forward-looking statements for the purposes of these provisions, including:

projections of revenues, estimated operating expenses or other financial items;

statements about management s plans and objectives for future operations or programs;

statements regarding future regulatory or shareholder approvals;

statements concerning proposed new products or services;

statements regarding pending or future mergers, acquisitions or other transactions; and

statement regarding future economic conditions or performance, and any statement of assumption underlying any of the foregoing.

These and other forward looking statements reflect attempts to predict the future and, as such, may not come to pass. A wide variety of events, circumstances and conditions may cause us to fall short of management s expectations as expressed herein, or to deviate from the plans and intentions we have described in this joint proxy statement. Some of the factors that may cause us to fall short of expectations or to deviate from our intended courses of action include:

the qualifying disclosures and other factors referenced in this joint proxy statement including, but not limited to, those identified in the section entitled Risk Factors Risks Relating to the Merger, Risk Factors Risks Relating to Ownership of HomeStreet s Common Stock, and Information about HomeStreet Management s Discussion and Analysis of Financial Condition and Results of Operations ;

our ability to manage the credit risks of our lending activities, including potential increases in loan delinquencies, nonperforming assets and write offs, decreased collateral values, inadequate loan reserve amounts and the effectiveness of our hedging strategies;

our ability to grow our geographic footprint and our various lines of business, and to manage that growth effectively, including our effectiveness in managing the associated costs and in generating the expected revenues and strategic benefits;

our ability to maintain our data security, including unauthorized electronic access, physical custody and inadvertent disclosure, and including potential reputational harm and litigation risks;

general economic conditions, either nationally or in our market area, including increases in mortgage interest rates, declines in housing refinance activities, employment trends, business contraction, consumer confidence, real estate values and other recessionary pressures;

our ability to anticipate and respond effectively to changes in interest rates and funding sources;

compliance with regulatory requirements, including laws and regulations such as those related to the Dodd-Frank Act and new rules being promulgated under that Act, Basel III capital requirements and related regulations, as well as restrictions that may be imposed by our federal and state regulatory authorities, including the extent to which regulatory initiatives may affect our capital, liquidity and earnings;

changes in mortgage markets generally, including changes in regulations and government policies regarding non-conforming mortgage loans, as well as in monetary policies and economic trends and initiatives;

- the requirements and policies of investors and/or government-owned or sponsored entities, including Fannie Mae, Freddie Mac, Ginnie Mae, the Federal Housing Administration, the Department of Housing and Urban Development, and the Department of Veterans Affairs;

- challenges in integrating new personnel, including increased salary costs, as well as time and attention from our management team that is required for achieving these objectives; and

- our ability to control costs while meeting operational needs and retaining key members of our senior management team and other key managers and business producers.

Unless required by law, we do not intend to update any of the forward-looking statements after the date of this joint proxy statement to conform these statements to actual results or changes in our expectations. Readers are cautioned not to place undue reliance on these forward-looking statements, which apply only as of the date of this joint proxy statement.

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The following discussion should be read in conjunction with the Selected Consolidated Financial Data and the Consolidated Financial Statements and the related Notes included in Items 6 and 8 of our most recent Annual Report on Form 10-K, and our most recent Quarterly Report on Form 10-Q, each of which is incorporated herein by reference.

Critical Accounting Policies and Estimates

The preparation of financial statements in accordance with the accounting principles generally accepted in the United States (U.S. GAAP) requires management to make a number of judgments, estimates and assumptions that affect the reported amount of assets, liabilities, income and expense in the financial statements. Various elements of our accounting policies, by their nature, involve the application of highly sensitive and judgmental estimates and assumptions. Some of these policies and estimates relate to matters that are highly complex and contain inherent uncertainties. It is possible that, in some instances, different estimates and assumptions could reasonably have been made and used by management, instead of those we applied, which might have produced different results that could have had a material effect on the financial statements.

We have identified the following accounting policies and estimates that, due to the inherent judgments and assumptions and the potential sensitivity of the financial statements to those judgments and assumptions, are critical to an understanding of our financial statements. We believe that the judgments, estimates and assumptions used in the preparation of HomeStreet s financial statements are appropriate.

Allowance for Loan Losses

The allowance for loan losses represents management s estimate of incurred credit losses inherent within our loan portfolio. Determining the appropriateness of the allowance is complex and requires judgment by management about the effect of matters that are inherently uncertain. Subsequent evaluations of the loan portfolio, in light of the factors then prevailing, may result in significant changes in the allowance for loan losses in those future periods.

We employ a disciplined process and methodology to establish our allowance for loan losses that has two basic components: first, an asset-specific component involving the identification of impaired loans and the measurement of impairment for each individual loan identified; and second, a formula-based component for estimating probable principal losses for all other loans.

An asset-specific allowance for impaired loans is established based on the amount of impairment calculated on those loans and charging off amounts determined to be uncollectible. A loan is considered impaired when it is probable that all contractual principal and interest payments due will not be collected substantially in accordance with the terms of the loan agreement. Factors we consider in determining whether a loan is impaired include payment status, collateral value, borrower financial condition, guarantor support and the probability of collecting scheduled principal and interest payments when due.

When a loan is identified as impaired, impairment is measured as the difference between the recorded investment in the loan and the present value of expected future cash flows discounted at the loan s effective interest rate or based on the loan s observable market price. For impaired collateral-dependent loans, impairment is measured as the difference between the recorded investment in the loan and the fair value of the underlying collateral. The fair value of the collateral is adjusted for the estimated cost to sell if repayment or satisfaction of a loan is dependent on the sale (rather than only on the operation) of the collateral. In accordance with our appraisal policy, the fair value of impaired collateral-dependent loans is based upon independent third-party appraisals or on collateral valuations prepared by in-house appraisers, which generally are updated every twelve months. We require an independent third-party appraisal at least annually for substandard loans and other real estate owned (OREO). Once a third-party appraisal is six months old, or if our chief appraiser determines that market conditions, changes to the property, changes in intended use of the property or other factors indicate that an appraisal is no

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longer reliable, we perform an internal collateral valuation to assess whether a change in collateral value requires an additional adjustment to carrying value. A collateral valuation is a restricted-use report prepared by our internal appraisal staff in accordance with our appraisal policy. Upon the receipt of an updated appraisal or collateral valuation, loan impairments are remeasured and recorded. If the calculated impairment is determined to be permanent, fixed or nonrecoverable, the impairment will be charged off. Loans designated as impaired are generally placed on nonaccrual and remain in that status until all principal and interest payments are current and the prospects for future payments in accordance with the loan agreement are reasonably assured, at which point the loan is returned to accrual status. See Credit Risk Management Asset Quality and Nonperforming Assets included in HomeStreet s Management s Discussion and Analysis of this Joint Proxy Statement.

In estimating the formula-based component of the allowance for loan losses, loans are segregated into loan classes. Loans are designated into loan classes based on loans pooled by product types and similar risk characteristics or areas of risk concentration. Credit loss assumptions are estimated using a model that categorizes loan pools based on loan type and asset quality rating (AQR) or delinquency bucket. This model calculates an expected loss percentage for each loan category by considering the probability of default, based on the migration of loans from performing to loss by AQR or delinquency buckets using one-year analysis periods, and the potential severity of loss, based on the aggregate net lifetime losses incurred per loan class.

The formula-based component of the allowance for loan losses also considers qualitative factors for each loan class, including the following changes in:

- lending policies and procedures;
- international, national, regional and local economic business conditions and developments that affect the collectability of the portfolio, including the condition of various markets;
- the nature of the loan portfolio, including the terms of the loans;
- the experience, ability and depth of the lending management and other relevant staff;
- the volume and severity of past due and adversely classified or graded loans and the volume of nonaccrual loans;
- the quality of our loan review and process;
- the value of underlying collateral for collateral-dependent loans;
- the existence and effect of any concentrations of credit and changes in the level of such concentrations; and

the effect of external factors such as competition and legal and regulatory requirements on the level of estimated credit losses in the existing portfolio.

Qualitative factors are expressed in basis points and are adjusted downward or upward based on management s judgment as to the potential loss impact of each qualitative factor to a particular loan pool at the date of the analysis.

Additionally, our credit administration department continually monitors conditions that affect the carrying values of our collateral, including local and regional economic factors as well as asset-specific factors such as tax values, comparable sales and other factors that affect or suggest changes in the actual collateral values. They also monitor and adjust for changes in comparable sales or competing projects, changes in zoning or entitlement status, changes in occupancy rates for income properties and similar factors.

The provision for loan losses recorded through earnings is based on management s assessment of the amount necessary to maintain the allowance for loan losses at a level appropriate to cover probable incurred losses inherent within the loans held for investment portfolio. The amount of provision and the corresponding level of allowance for loan losses are based on our evaluation of the collectability of the loan portfolio based on historical loss experience and other significant qualitative factors.

The allowance for loan losses, as reported in our consolidated statements of financial condition, is adjusted by a provision for loan losses, which is recognized in earnings, and reduced by the charge-off of loan amounts, net of recoveries.

Fair Value of Financial Instruments, Single Family MSRs and OREO

A portion of our assets are carried at fair value, including single family mortgage servicing rights, single family loans held for sale, interest rate lock commitments, investment securities available for sale and derivatives used in our hedging programs. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair value is based on quoted market prices, when available. If a quoted price for an asset or liability is not available, HomeStreet uses valuation models to estimate its fair value. These models incorporate inputs such as forward yield curves, loan prepayment assumptions, expected loss assumptions, market volatilities, and pricing spreads utilizing market-based inputs where readily available. We believe our valuation methods are appropriate and consistent with those that would be used by other market participants. However, imprecision in estimating unobservable inputs and other factors may result in these fair value measurements not reflecting the amount realized in an actual sale or transfer of the asset or liability in a current market exchange.

A three-level valuation hierarchy has been established under the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 820 for disclosure of fair value measurements. The valuation hierarchy is based on the observability of inputs to the valuation of an asset or liability as of the measurement date. A financial instrument s categorization within the valuation hierarchy is based on the lowest level of input that is significant to the fair value measurement. The levels are defined as follows:

Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity can access at the measurement date. An active market for the asset or liability is a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. This includes quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability for substantially the full term of the financial instrument.

Level 3 Unobservable inputs for the asset or liability. These inputs reflect HomeStreet s assumptions of what market participants would use in pricing the asset or liability.

Significant judgment is required to determine whether certain assets and liabilities measured at fair value are included in Level 2 or Level 3. When making this judgment, we consider all available information, including observable market data, indications of market liquidity and orderliness, and our understanding of the valuation techniques and significant inputs used. The classification of Level 2 or Level 3 is based upon the specific facts and circumstances of each instrument or instrument category and judgments are made regarding the significance of the Level 3 inputs to an instrument s fair value measurement in its entirety. If Level 3 inputs are considered significant, the instrument is classified as Level 3.

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The following is a summary of the assets and liabilities recorded at fair value on a recurring basis and where the amounts are measured using significant Level 3 inputs. The fair value of the remaining assets and liabilities were measured using valuation methodologies involving market-based or market-derived information, collectively Level 1 and 2 measurements.

	At December 31,			
	2013		2012	
(in millions)	**Total Balance**	**Level 3**	**Total Balance**	**Level 3**
Assets carried at fair value	$ 925.8	$ 159.1	$ 1,135.0	$ 109.9
As a percentage of total assets	30%	5%	43%	4%
Liabilities Carried at fair value	$ 10.4	$	$ 12.1	$
As a percentage of total liabilities	NM	NM	1%	NM
NM = not meaningful				

As of December 31, 2013, our Level 3 recurring fair value measurements consisted of single family MSRs and interest rate lock commitments.

On a quarterly basis, our Asset/Liability Management Committee (ALCO) and the Finance Committee of HomeStreet Bank s Board of Directors review the significant inputs used in Level 3 measurements. Additionally, at least annually ALCO obtains an independent review of the MSR valuation process and procedures, including a review of the model architecture and the valuation assumptions. The Finance Committee of the Board provides oversight and approves HomeStreet s Asset/Liability Management Policy. We obtain an MSR valuation from an independent valuation firm at least quarterly to assist with the validation of our fair value estimates and the reasonableness of the assumptions used in measuring fair value.

In addition to the recurring fair value measurements shown above, from time to time HomeStreet may have certain nonrecurring fair value measurements. These fair value measurements usually result from the application of lower of cost or fair value accounting or impairment of individual assets. As of December 31, 2013 and 2012, HomeStreet s Level 3 nonrecurring fair value measurements, totaling $57.4 million and $50.8 million, respectively, were based on the appraised value of collateral used as the basis for the valuation of collateral dependent loans held for investment and OREO.

Real estate valuations are overseen by our appraisal department, which is independent of our lending and credit administration functions. The appraisal department maintains the appraisal policy and recommends changes to the policy subject to approval by the Credit Committee of HomeStreet s Board of Directors and HomeStreet s Loan Committee (the Loan Committee), established by the Credit Committee of HomeStreet s Board of Directors and comprised of certain of HomeStreet s management. Appraisals are prepared by independent third-party appraisers and our internal appraisers. Single family appraisals are generally reviewed by our single family appraisal staff. Single family appraisals with unusual, higher risk or complex characteristics, as well as commercial real estate appraisals, are reviewed by state certified or licensed appraisers in our appraisal department.

Income Taxes

In establishing an income tax provision, we must make judgments and interpretations about the application of inherently complex tax laws. We must also make estimates about when in the future certain items will affect taxable income. Our interpretations may be subject to review during examination by taxing authorities and disputes may arise over the respective tax positions. We monitor tax authorities and revise our estimates of accrued income taxes due to changes in income tax laws and their interpretation by the courts and regulatory authorities on a quarterly basis. Revisions of our estimate of accrued income taxes also may result from our own income tax planning and strategies and from the resolution of income tax controversies. Such revisions in our estimates may be material to our operating results for any given reporting period.

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Income taxes are accounted for using the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Under this method, a deferred tax asset or liability is determined based on the differences between the financial statements and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

HomeStreet records net deferred tax assets to the extent it is believed that these assets will more likely than not be realized. In making such determination, management considers all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax planning strategies and recent financial operations. After reviewing and weighing all of the positive and negative evidence, if the positive evidence outweighs the negative evidence, then HomeStreet does not record a valuation allowance for deferred tax assets. If the negative evidence outweighs the positive evidence, then a valuation allowance for all or a portion of the deferred tax assets is recorded.

HomeStreet recognizes interest and penalties related to unrecognized tax benefits as income tax expense in the consolidated statements of operations. Accrued interest and penalties are included within the related tax liability line in the consolidated statements of financial condition.

Overview

We generate revenue by earning net interest income and noninterest income. Net interest income is primarily the difference between interest income earned on loans and investment securities less the interest we pay on deposits and other borrowings. We earn noninterest income from the origination, sale and servicing of loans and from fees earned on deposit services and investment and insurance sales.

Quarter and Nine Month Period Ended September 30, 2014

At September 30, 2014, we had total assets of $3.47 billion, net loans held for investment of $1.96 billion, deposits of $2.43 billion and shareholders equity of $294.6 million.

Results for the third quarter of 2014 reflect the continued growth of our mortgage banking business and investments to expand our commercial and consumer business. Since September 2013, we have increased our lending capacity by adding loan origination and operations personnel in all of our lending lines of business. We added 19 home loan centers, one commercial lending center, one residential construction center and 10 retail deposit branches, four de novo and six from acquisitions, to bring our total home loan centers to 55, our total commercial centers to five and our total retail deposit branches to 33.

We continued to execute our strategy of diversifying earnings by expanding the commercial and consumer banking business; growing our mortgage banking market share in existing and new markets; growing and improving the quality of our deposits; and bolstering our processing, compliance and risk management capabilities. Despite substantial growth in home loan centers and mortgage production personnel, our production volume has been less than expected due in part to macroeconomic forces and sluggishness in our markets. In recent periods we have experienced very low levels of homes available for sale in many of the markets in which we operate. The lack of housing inventory has had a downward impact on the volume of mortgage loans that we originate. Further, it has resulted in elevated costs, as a significant amount of loan processing and underwriting that we perform are to qualifying borrowers for mortgage loan transactions that never materialize. The lack of inventory of homes for sale may continue to have an adverse impact on mortgage loan volumes into the foreseeable future.

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Fiscal Year Ended December 31, 2013

At December 31, 2013, we had total assets of $3.07 billion, net loans held for investment of $1.87 billion, deposits of $2.21 billion and shareholders equity of $265.9 million. At December 31, 2012, we had total assets of $2.63 billion, net loans held for investment of $1.31 billion, deposits of $1.98 billion and shareholders equity of $263.8 million.

Results for 2013 reflect the growth of our mortgage banking business and investments to expand our commercial and consumer business. During 2013, we increased our lending capacity by adding loan origination and operations personnel in single family lending, commercial real estate lending, and commercial business lending. We opened 19 mortgage loan origination offices, two commercial lending offices and two de novo retail deposit branches. In addition, we expanded our bank branch network by adding six retail deposit branches: four through the acquisition of YNB and two through the acquisition of retail branches from AmericanWest Bank.

As discussed below, during 2013 we continued to execute our strategy of diversifying earnings by expanding the commercial and consumer banking business; growing our mortgage banking market share in new markets; improving the quality of our deposits; bolstering our processing, compliance and risk management capabilities; and working to successfully integrate the businesses acquired during the year.

Consolidated Financial Performance

Quarter and Nine Month Period Ended September 30, 2014

(in thousands, except per share data and ratios)	At or for the Three Months Ended September 30, 2014	At or for the Three Months Ended September 30, 2013	Percent Change 2014 vs. 2013	At or for the Nine Months Ended September 30, 2014	At or for the Nine Months Ended September 30, 2013	Percent Change 2014 vs. 2013
Selected statement of operations data						
Total net revenue	$ 71,121	$ 58,586	21%	$ 205,337	$ 207,735	(1)%
Total noninterest expense	64,158	58,116	10	183,220	170,627	7
Provision (reversal of provision) for credit losses		(1,500)	(100)	(1,500)	900	NM
Income tax expense	1,988	308	545	6,979	11,538	(40)
Net income	$ 4,975	$ 1,662	199%	$ 16,638	$ 24,670	(33)%
Financial performance						
Diluted earnings per common share	$ 0.33	$ 0.11		$ 1.11	$ 1.67	
Return on average common shareholders equity	6.74%	2.45%		7.81%	11.94%	
Return on average assets	0.61%	0.24%		0.71%	1.25%	
Net interest margin	3.50%	3.41%		3.50%	3.12%(1)	
Capital ratios (Bank only)						

Tier 1 leverage capital (to average assets)	9.63%	10.85%	9.63%	10.85%
Tier 1 risk-based capital (to risk-weighted assets)	13.03%	17.19%	13.03%	17.19%
Total risk-based capital (to risk-weighted assets)	13.95%	18.44%	13.95%	18.44%

(1) Net interest margin for the first quarter of 2013 included $1.4 million in interest expense related to the correction of the cumulative effect of an error in prior years, resulting from the under accrual of interest due on the TruPS for which HomeStreet had deferred the payment of interest. Excluding the impact of the prior period interest expense correction, the net interest margin was 3.21% for the nine months ended September 30, 2013.

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For the third quarter of 2014, net income was $5.0 million, or $0.33 per diluted share, compared to $1.7 million, or $0.11 per diluted share for the third quarter of 2013. Return on equity was 6.74% for the third quarter of 2014 (on an annualized basis), compared to 2.45% for the same period last year, while return on average assets was 0.61% for the third quarter of 2014 (on an annualized basis), compared to 0.24% for the same period last year.

Fiscal Year Ended December 31, 2013

	Year Ended December 31,	
(in thousands, except per share data and ratios)	**2013**	**2012**
Selected statements of operations data		
Total net revenue[1]	$ 265,189	$ 298,763
Total noninterest expense	229,495	183,591
Provision for credit losses	900	11,500
Income tax expense (benefit)	10,985	21,546
Net income	23,809	82,126
Financial performance		
Diluted income per share	$ 1.61	$ 5.98
Return on average Shareholders equity	9.56%	38.86%
Return on average total assets	0.88%	3.42%
Net interest margin	3.17%[2]	2.89%
Capital ratios (Bank only)		
Tier 1 leverage capital (to average assets)	9.96%	11.78%
Tier 1 risk-based capital (to risk-weighted assets)	14.28%	18.05%
Total risk-based capital (to risk-weighted assets)	15.46%	19.31%

(1) Total net revenue is net interest income and noninterest income.

(2) Net interest margin for the year ended December 31, 2013 included $1.4 million in interest expense related to the correction of the cumulative effect of an error in prior years, resulting from the under accrual of interest due on the Trust Preferred Securities (TruPS) for which HomeStreet had deferred the payment of interest. Excluding the impact of the prior period interest expense correction, the net interest margin was 3.23% for the year ended December 31, 2013.

For 2013, we reported net income of $23.8 million, or $1.61 per diluted share, compared to $82.1 million, or $5.98 per share, for 2012. Return on average equity was 9.56% for 2013, compared to 38.86% for 2012, while the return on average assets was 0.88% for 2013, compared to 3.42% for 2012.

Commercial and Consumer Banking Segment Results

Quarter and Nine Month Period Ended September 30, 2014

Commercial and Consumer Banking segment net income was $3.5 million in the third quarter of 2014, compared to $4.9 million in the third quarter of 2013.

Commercial and Consumer Banking segment net interest income was $20.2 million for the third quarter of 2014, an increase of $4.1 million, or 25.3%, from $16.1 million for the third quarter of 2013, primarily due to growth in average balances of loans held for investment, both from originations and from our acquisitions in the fourth quarter of 2013.

In recognition of HomeStreet s improving credit trends and lower charge-offs, HomeStreet recorded no provision in the third quarter of 2014 compared to a release of $1.5 million of reserves in the third quarter of 2013. Net charge-offs were $57 thousand in the third quarter of 2014, a decrease of $1.4 million, or 96.1%, from $1.5

million in the third quarter of 2013. Overall, the allowance for loan losses (which excludes the allowance for unfunded commitments) was 1.10% of loans held for investment at September 30, 2014 compared to 1.61% at September 30, 2013, which primarily reflected the improved credit quality of HomeStreet s loan portfolio. Excluding acquired loans, the allowance for loan losses was 1.18% of loans held for investment at September 30, 2014. Nonperforming assets of $30.4 million, or 0.87% of total assets at September 30, 2014, were down significantly from September 30, 2013 when nonperforming assets were $39.0 million, or 1.37% of total assets.

Commercial and Consumer Banking segment noninterest expense of $18.9 million increased $4.3 million, or 29.2%, from $14.6 million in the third quarter of 2013, primarily due to increased costs from fourth quarter 2013 acquisitions and the continued organic growth of our commercial real estate and commercial business lending units and the expansion of our branch banking network. We added 10 retail deposit branches, four de novo and six from acquisitions, and increased the segment s headcount by 20% during the twelve-month period.

Fiscal Year Ended December 31, 2013

Commercial and Consumer Banking segment net income increased to $2.6 million for the year ended December 31, 2013 from a net loss of $14.5 million for the year ended December 31, 2012, primarily due to lower provision for credit losses and an increase in net interest income, which reflected an improvement in our loan credit quality and higher average balances of portfolio loans and investment securities.

Commercial and Consumer Banking segment net interest income was $59.2 million for the year ended December 31, 2013, an increase of $12.5 million, or 26.9%, from $46.6 million for the year ended December 31, 2012, primarily due to higher average balances of portfolio loans and investment securities, as well as improved composition of deposit balances. The continued improvement in the composition of deposits was primarily the result of our successful efforts to attract transaction and savings deposit balances through effective brand marketing.

Improved credit quality resulted in a $900 thousand provision for credit losses for the year ended December 31, 2013, compared to a credit loss provision of $11.5 million for the year ended December 31, 2012. Net charge-offs were $4.6 million in 2013 compared to $26.5 million in 2012. Overall, the allowance for loan losses (which excludes the allowance for unfunded commitments) was 1.26% of loans held for investment at December 31, 2013 compared to 2.06% at December 31, 2012, which primarily reflected the improved credit quality of HomeStreet s loan portfolio. Excluding acquired loans, the allowance for loan losses as a percentage of total loans was 1.40% of total loans at December 31, 2013. Nonperforming assets of $38.6 million, or 1.26% of total assets at December 31, 2013, were down significantly from December 31, 2012 when nonperforming assets were $53.8 million, or 2.05% of total assets.

Nonperforming assets of $38.6 million, or 1.26% of total assets at December 31, 2013, were down significantly from December 31, 2012 when nonperforming assets were $53.8 million, or 2.05% of total assets.

Mortgage Banking Segment Results

Quarter and Nine Month Period Ended September 30, 2014

Mortgage Banking segment net income was $1.4 million in the third quarter of 2014, compared to a net loss of $3.2 million in the third quarter of 2013. The increase in net income is primarily due to higher noninterest income resulting from higher interest rate lock commitment volumes.

Mortgage Banking noninterest income of $42.2 million increased $7.5 million, or 21.5%, from $34.7 million in the third quarter of 2013, primarily due to a 48.5% increase in mortgage interest rate lock commitment volumes, partially offset by lower secondary market margins. Lower commitment volumes reflect, in part, sharp increases in market interest rates late in the second quarter of 2013 which negatively impacted third quarter 2013 origination activity. Lower commitment volumes were offset through our expansion of our mortgage production offices and increased our mortgage production personnel by 26.8% at September 30, 2014 compared to

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September 30, 2013. At the same time, secondary market profit margins have declined, as the mortgage market became substantially more competitive as lenders tried to secure a reliable flow of production through competitive pricing.

Mortgage Banking noninterest expense of $45.2 million increased $1.8 million, or 4.0%, from $43.5 million in the third quarter of 2013, primarily due to higher commission and incentive expense and general and administrative expenses resulting from a 9.1% increase in closed loan volumes and overall growth in personnel and expansion into new markets. We added 19 home loan centers and increased the segment s headcount by 7.7% during the twelve-month period.

Fiscal Year Ended December 31, 2013

Mortgage Banking segment net income was $21.2 million for the year ended December 31, 2013 compared to net income of $96.6 million for the year ended December 31, 2012. The decrease in net income was primarily the result of substantially lower mortgage interest rate lock commitment volumes and lower gain on sale margins.

Mortgage Banking noninterest income of $182.7 million decreased $45.5 million, or 19.9%, from $228.2 million for the year ended December 31, 2012, primarily due to decreased mortgage interest rate lock commitments volumes and lower gain on sale margins. Commitment volumes declined mainly due to the rise in mortgage interest rates beginning in the second quarter of 2013, causing a significant decrease in refinancing activity that was only partially offset by a slightly stronger purchase mortgage market. At the same time, the mortgage market became substantially more competitive as lenders tried to secure a reliable flow of production through competitive pricing.

Mortgage Banking noninterest expense of $165.7 million increased $45.4 million, or 37.7%, from $120.4 million for the year ended December 31, 2012, primarily due to the addition of approximately 120 mortgage originators and mortgage fulfillment personnel as we grew our single family mortgage lending network.

Regulatory Matters

Quarter and Nine Month Period Ended September 30, 2014

HomeStreet Bank remains well-capitalized, with Tier 1 leverage and total risk-based capital ratios at September 30, 2014 of 9.63% and 13.96%, respectively, compared with 10.85% and 18.44% at September 30, 2013. The decline in the Bank s capital ratios from September 30, 2013 was primarily attributable to the fourth quarter 2013 cash acquisitions of Fortune Bank, Yakima National Bank and two branches from AmericanWest Bank, which resulted in $14.4 million of net intangible assets at September 30, 2014 which are not included as capital for regulatory purposes and resulted in an increase in average and risk-weighted assets, as well as overall growth in total risk-weighted assets.

On January 1, 2015, HomeStreet and HomeStreet Bank will become subject to new capital standards commonly referred to as Basel III which raise our minimum capital requirements. For more on the Basel III requirements as they apply to us, please see *Capital Management New Capital Regulations* within the Liquidity and Capital Resources section of HomeStreet s Management s Discussion and Analysis in this Joint Proxy Statement.

Fiscal Year Ended December 31, 2013

HomeStreet Bank remained well-capitalized, with Tier 1 leverage and total risk-based capital ratios at December 31, 2013 of 9.96% and 15.46%, respectively, compared with 11.78% and 19.31% at December 31, 2012. The decline in HomeStreet Bank s capital ratios from December 31, 2012 was primarily attributable to the fourth quarter acquisitions of Fortune Bank, Yakima National Bank (YNB) and two branches from AmericanWest Bank, which created $13.6 million of intangible assets which are not included as capital for regulatory purposes and which resulted in an increase in average and risk-weighted assets, as well as the equity impact of lower net income in 2013.

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Results of Operations

Average Balances and Rates

Quarter and Nine Month Period Ended September 30, 2014

Average balances, together with the total dollar amounts of interest income and expense, on a tax equivalent basis related to such balances and the weighted average rates, were as follows.

	Three Months Ended September 30,					
	2014			2013		
(in thousands)	Average Balance	Interest	Average Yield/Cost	Average Balance	Interest	Average Yield/Cost
Assets:						
Interest-earning assets:[1]						
Cash and cash equivalents	$ 27,631	$ 13	0.19%	$ 37,671	$ 17	0.24%
Investment securities	457,545	3,141	2.72%	556,862	4,452	3.20%
Loans held for sale	550,237	5,393	3.89%	404,853	4,004	3.96%
Loans held for investment	1,917,503	20,402	4.22%	1,475,011	15,453	4.18%
Total interest-earning assets	2,952,916	28,949	3.89%	2,474,397	23,926	3.88%
Noninterest-earning assets[2]	329,089			311,897		
Total assets	$ 3,282,005			$ 2,786,294		
Liabilities and shareholders equity:						
Deposits:						
Interest-bearing demand accounts	$ 281,820	301	0.42%	$ 254,277	265	0.41%
Savings accounts	174,849	238	0.54%	123,444	140	0.45%
Money market accounts	1,001,709	1,125	0.45%	848,300	1,060	0.50%
Certificate accounts	402,786	700	0.69%	383,221	762	0.79%
Total interest-bearing deposits	1,861,164	2,364	0.50%	1,609,242	2,227	0.57%
Federal Home Loan Bank advances	442,409	509	0.46%	374,682	434	0.46%
Securities sold under agreements to repurchase	11,149	6	0.21%			%
Long-term debt	61,857	271	1.74%	61,231	274	1.75%
Other borrowings		20	%			%
Total interest-bearing liabilities	2,376,579	3,170	0.53%	2,045,155	2,935	0.57%
Noninterest-bearing liabilities	610,197			469,853		
Total liabilities	2,986,776			2,515,008		
Shareholders equity	295,229			271,286		

Total liabilities and shareholders equity	$ 3,282,005		$ 2,786,294	
Net interest income[3]		$ 25,779		$ 20,991
Net interest spread		3.36%		3.31%
Impact of noninterest-bearing sources		0.14%		0.10%
Net interest margin		3.50%		3.41%

(1) The average balances of nonaccrual assets and related income, if any, are included in their respective categories.
(2) Includes former loan balances that have been foreclosed and are now reclassified to OREO.
(3) Includes taxable-equivalent adjustments primarily related to tax-exempt income on certain loans and securities of $471 thousand and $579 thousand for the three months ended September 30, 2014 and September 30, 2013, respectively. The estimated federal statutory tax rate was 35% for the periods presented.

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	Nine Months Ended September 30,					
	2014			2013		
(in thousands)	Average Balance	Interest	Average Yield/Cost	Average Balance	Interest	Average Yield/Cost
Assets:						
Interest-earning assets: [1]						
Cash and cash equivalents	$ 30,793	$ 45	0.19%	$ 27,488	$ 46	0.26%
Investment securities	460,723	10,005	2.90%	497,857	11,175	2.99%
Loans held for sale	447,946	12,863	3.84%	415,633	11,218	3.60%
Loans held for investment	1,838,526	59,089	4.30%	1,406,582	43,795	4.13%
Total interest-earning assets	2,777,988	82,002	3.95%	2,347,560	66,234	3.75%
Noninterest-earning assets [2]	345,229			280,668		
Total assets	$ 3,123,217			$ 2,628,228		
Liabilities and shareholders equity:						
Deposits:						
Interest-bearing demand accounts	$ 268,282	657	0.33%	$ 224,942	656	0.39%
Savings accounts	166,896	657	0.53%	114,023	358	0.42%
Money market accounts	969,262	3,224	0.44%	776,267	2,890	0.50%
Certificate accounts	476,224	2,542	0.71%	448,315	4,189	1.25%
Total interest-bearing deposits	1,880,664	7,080	0.50%	1,563,547	8,093	0.69%
Federal Home Loan Bank advances	372,605	1,366	0.49%	277,192	1,113	0.53%
Securities sold under agreements to repurchase	4,134	7	0.23%	3,638	11	0.40%
Long-term debt	62,469	851	1.82%	61,646	2,274[3]	4.86%[3]
Other borrowings		32	%			%
Total interest-bearing liabilities	2,319,872	9,336	0.54%	1,906,023	11,491	0.79%
Noninterest-bearing liabilities	519,199			446,742		
Total liabilities	2,839,071			2,352,765		
Shareholders equity	284,146			275,463		
Total liabilities and shareholders equity	$ 3,123,217			$ 2,628,228		
Net interest income [4]		$ 72,666			$ 54,743	
Net interest spread			3.41%			2.96%
Impact of noninterest-bearing sources			0.09%			0.16%
Net interest margin			3.50%			3.12%[3]

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Fiscal Year Ended December 31, 2013

Average balances, together with the total dollar amounts of interest income and expense, on a tax equivalent basis related to such balances and the weighted average rates were as follows:

	Year Ended December 31,					
	2013			2012		
(in thousands)	Average Balance	Interest	Average Yield/Cost	Average Balance	Interest	Average Yield/Cost
Assets:	$ 29,861	$ 73	0.24%	$ 94,478	$ 231	0.24%
Interest-earning assets:[1]	515,000	14,608	2.84	410,819	11,040	2.69
Cash & cash equivalents	381,129	14,180	3.72	359,056	12,719	3.56
Investment securities	1,496,146	62,384	4.17	1,303,010	58,490	4.49
Loans held for sale	2,422,136	91,245	3.77	2,167,363	82,480	3.81
Loans held for investment	296,078			236,497		
Total interest-earning assets	$ 2,718,214			$ 2,403,860		
Noninterest-earning assets[2]						
Total assets						
Liabilities and shareholders equity:						
Deposits:						
Interest-bearing demand accounts	$ 242,530	$ 925	0.38%	$ 151,029	$ 498	0.33%
Savings accounts	122,602	545	0.44	90,246	395	0.44
Money market accounts	810,666	3,899	0.48	613,546	3,243	0.53
Certificate accounts	415,876	4,816	1.16	790,038	12,605	1.60
Total interest-bearing deposits	1,591,674	10,185	0.64	1,644,859	16,741	1.02
Federal Home Loan Bank advances	293,871	1,532	0.52	93,325	1,788	1.91
Securities sold under agreements to repurchase	2,721	11	0.40	17,806	70	0.39
Long-term debt	62,349	2,546	4.03	61,857	1,333	2.16
Other borrowings	73,976	257			16	
Total interest-bearing liabilities	2,024,591	14,531	0.72	1,817,847	19,948	1.10
Noninterest-bearing liabilities	444,542			374,684		
Total liabilities	2,469,133			2,192,531		
Shareholders equity	249,081			211,329		
Total liabilities and shareholders equity	$ 2,718,214			$ 2,403,860		
Net interest income[4]		$ 76,714			$ 62,532	

Net interest spread	3.05%	2.71%
Impact of noninterest-bearing sources	0.12%	0.18%
Net interest margin	3.17%	2.89%

(1) The average balances of nonaccrual assets and related income, if any, are included in their respective categories.
(2) Includes loan balances that have been foreclosed and are now reclassified to OREO.
(3) Interest expense for the year ended December 31, 2013 included $1.4 million recorded in the first quarter of 2013 related to the correction of the cumulative effect of an error in prior years, resulting from the under accrual of interest due on our Trust Preferred Securities for which HomeStreet had deferred payment of interest. Excluding the impact of the prior period interest expense correction, the net interest margin was 3.23%.

(4) Includes taxable-equivalent adjustments primarily related to tax-exempt income on certain loans and securities of $2.3 million and $1.8 million for the years ended 2013 and 2012, respectively. The estimated federal statutory tax rate was 35% for the periods presented.

Interest on Nonaccrual Loans

We do not include interest collected on nonaccrual loans in interest income. When we place a loan on nonaccrual status, we reverse the accrued unpaid interest receivable against interest income and amortization of any net deferred fees is suspended. Additionally, if a nonaccrual loan is placed back on accrual status or paid off, the accumulated interest collected on the loan is recognized as an adjustment to the cost basis of the loan at the time the loan is removed from nonaccrual status.

The net decrease to interest income due to adjustments made for nonaccrual loans, including the effect of additional interest income that would have been recorded during the period if the loans had been accruing, was $713 thousand and $1.2 million for the three months ended September 30, 2014 and 2013, respectively, and $2.2 million and $3.6 million for the nine months ended September 30, 2014 and 2013, respectively.

The net decrease to interest income due to adjustments made for nonaccrual loans, including the effect of additional interest income that would have been recorded during the period if the loans had been accruing, was $686 thousand and $1.1 million for the years ended December 31, 2013 and 2012, respectively.

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Rate and Volume Analysis

The following table presents the extent to which changes in interest rates and changes in the volume of our interest-earning assets and interest-bearing liabilities have affected our interest income and interest expense, excluding interest income from nonaccrual loans. Information is provided in each category with respect to: (1) changes attributable to changes in volume (changes in volume multiplied by prior rate), (2) changes attributable to changes in rate (changes in rate multiplied by prior volume), (3) changes attributable to changes in rate and volume (change in rate multiplied by change in volume), which were allocated in proportion to the percentage change in average volume and average rate and included in the relevant column and (4) the net change.

	Year Ended December 31, 2013 vs. 2012		
	Increase (Decrease) Due to		
(in thousands)	**Rate**	**Volume**	**Total Change**
Assets:			
Interest-earning assets:			
Cash and cash equivalents	$	$ (158)	$ (158)
Investment securities	762	2,806	3,568
Loans held for sale	675	786	1,461
Loans held for investment	(4,775)	8,669	3,894
Total interest-earning assets	3,338	12,103	8,765
Liabilities:			
Deposits:			
Interest-bearing demand accounts	129	298	427
Savings accounts	8	142	150
Money market accounts	386	1,042	656
Certificate accounts	(1,819)	(5,970)	(7,789)
Total interest-bearing deposits	(2,068)	(4,488)	(6,556)
Federal Home Loan Bank advances	(4,079)	3,823	(256)
Securities sold under agreements to repurchase	(1)	(58)	(59)
Long-term debt	1,203	10	1,213
Other borrowings		241	241
Total interest-bearing liabilities	(4,945)	(472)	(5,417)
Total changes in net interest income	$ 1,607	$ 12,575	$ 14,182

Net Income

Net income was $5.0 million for the three months ended September 30, 2014, an increase of $3.3 million from net income of $1.7 million for the three months ended September 30, 2013, primarily due to higher average balances of interest-earning assets and higher net gain on mortgage loan origination and sale activities. For the first nine months of

2014, net income was $16.6 million, a decrease of $8.0 million, or 32.6%, from $24.7 million for the first nine months of 2013. The decline in net income from the first nine months of 2013 mainly resulted from a decrease in noninterest income, primarily due to a significantly lower gain on mortgage loan origination and sale activities driven by lower single family interest rate lock commitments. Included in noninterest income for the first nine months of 2014 were a $4.7 million pre-tax net increase in mortgage servicing income resulting from the sale of MSRs and a $4.6 million pre-tax gain on single family mortgage origination and sale activities from the sale of loans that were originally held for investment. No similar transactions occurred in the first nine months of 2013.

For the year ended 2013, we reported net income of $23.8 million, a decrease of $58.3 million, or 71.0%, compared to net income of $82.1 million in 2012. The decline in net income in 2013 mainly resulted from a $47.3 million, or 19.9%, decrease in noninterest income compared to 2012, primarily due to a significantly lower gain on mortgage loan origination and sale activities resulting from a decline in single family mortgage loan production compared to the record production that HomeStreet experienced in 2012. This decrease was partially offset by a $13.7 million increase in net interest income in 2013 mainly due to improved deposit product and pricing strategies that included reducing our higher-cost deposits and converting customers with maturing certificates of deposit to transaction and savings deposits. Additionally, we experienced a $45.9 million, or 25.0%, increase in noninterest expense as we continued to grow our business and market share in 2013 both organically and through acquisitions.

Net Interest Income

Our profitability depends significantly on net interest income, which is the difference between income earned on our interest-earning assets, primarily loans and investment securities, and interest paid on interest-bearing liabilities. Our interest-bearing liabilities consist primarily of deposits and borrowed funds, including our outstanding trust preferred securities and advances from the Seattle Federal Home Loan Bank (Seattle FHLB).

Quarter and Nine Month Period Ended September 30, 2014

Net interest income on a tax equivalent basis was $25.8 million for the third quarter of 2014, an increase of $4.8 million, or 22.8%, from $21.0 million for the third quarter of 2013. For the first nine months of 2014, net interest income was $72.7 million, an increase of $17.9 million, or 32.7%, from $54.7 million for the first nine months of 2013. The net interest margin for the third quarter of 2014 improved to 3.50% from 3.41% in the third quarter of 2013, and improved to 3.50% for the nine months ended September 30, 2014 from 3.12% for the same period last year. The net interest margin increase from the third quarter of 2013 resulted from higher yields on higher average balances of loans held for investment. Included in interest expense for the nine months ended September 30, 2013 was expense of $1.4 million related to the correction of the cumulative effect of an immaterial error in prior years, resulting from the under accrual of interest due on the TruPS for which HomeStreet had deferred the payment of interest. Excluding the impact of the prior period interest expense correction, the net interest margin for the nine months ended September 30, 2013 was 3.21%.

Total average interest-earning assets increased from the three and nine months ended September 30, 2013, primarily as a result of growth in average loans held for investment, both from originations and from fourth quarter 2013 acquisitions. Total average interest-bearing deposit balances increased from the prior periods primarily due to acquisition-related and organic growth in transaction and savings deposits.

Total interest income on a tax equivalent basis of $28.9 million in the third quarter of 2014 increased $5.0 million, or 21.0%, from $23.9 million in the third quarter of 2013, primarily driven by higher yields on higher average balances of loans held for investment. Average balances of loans held for investment increased $442.5 million, or 30.0%, from the third quarter of 2013. For the first nine months of 2014, interest income was $82.0 million, an increase of $15.8 million, or 23.8%, from $66.2 million in the same period last year resulting from higher yields on higher average balances of loans held for investment.

Total interest expense of $3.2 million in the third quarter of 2014 increased $235 thousand, or 8.0%, from $2.9 million in the third quarter of 2013. Higher average balances of interest-bearing deposits in the third quarter of 2014 were primarily offset by a 7 basis point reduction in the cost of interest-bearing deposits. For the first nine months of 2014, interest expense was $9.3 million, a decrease of $2.2 million, or 18.8%, from $11.5 million in the nine months ended September 30, 2013, reflecting a 19 basis point decrease in the cost of interest-bearing deposits. Included in interest expense for the nine months ended September 30, 2013 was expense of $1.4 million related to the correction of the cumulative effect of an immaterial error in prior years, resulting from the under accrual of interest due on the TruPS for which HomeStreet had deferred the payment of interest.

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Fiscal Year Ended December 31, 2013

Net interest income on a tax equivalent basis was $76.7 million for the year ended December 31, 2013, an increase of $14.2 million, or 23%, from $62.5 million for the year ended December 31, 2012. During 2013, total interest income increased $8.8 million from 2012, while total interest expense decreased $5.4 million from 2012. The net interest margin for the year ended December 31, 2013 improved to 3.17% from 2.89% in 2012. Total average interest-earning assets increased in 2013 primarily as a result of growth in the investment securities portfolio and new portfolio loan originations, partially offset by a decrease in cash and cash equivalents mainly used to fund these investments. Total average interest-bearing deposit balances decreased from 2012 mostly as a result of a reduction in higher-cost retail certificates of deposits, partially offset by an increase in transaction and savings deposits. The improvement in our net interest income and net interest margin in large part reflected the execution of our deposit product and pricing strategies, as growth in transaction and savings account balances partially offset maturities of higher yielding certificates of deposit. Additionally, we increased our net interest income through increased commercial portfolio lending as we continued to grow our Commercial and Consumer Banking segment.

Total interest income on a tax equivalent basis of $91.2 million in 2013 increased $8.8 million, or 10.6%, from $82.5 million in 2012, primarily driven by higher average balances of portfolio loans and investment securities. Average balance of loans held for investment increased by $193.1 million, or 14.8%, and the average balance of investment securities increased $104.2 million, or 25.4%, from 2012. We re-balanced our investment securities with a shift toward higher-yielding municipal securities, which resulted in an increase in yield on investment securities of 15 basis points. These increases were partially offset by a decrease in the average balance of cash and cash equivalents, which decreased $64.6 million, or 68.4%, compared to 2012 and a lower yield on average loans held for investment, which decreased 32 basis points during 2013.

Total interest expense of $14.5 million in 2013 decreased $5.4 million, or 27%, from $19.9 million in 2012. This decrease was primarily due to a $374.2 million, or 47.4%, reduction in the average balance of higher-yielding certificates of deposit, partially offset by an increase in lower cost transaction and savings deposits as we expand our deposit branch network. Also contributing to the decrease in interest expense was the restructuring of Seattle FHLB advances. We prepaid certain long-term Seattle FHLB advances and used short-term Seattle FHLB advances to meet short-term mortgage origination and sales funding needs, which contributed to a 139 basis point decline in interest cost on Seattle FHLB advances.

Provision for Loan Losses

Management believes that HomeStreet s allowance for loan losses is at a level appropriate to cover estimated incurred losses inherent within the loans held for investment portfolio. Our credit risk profile has improved since December 31, 2012 as illustrated by the credit trends below.

In recognition of our improving credit trends and lower charge-offs, we recorded no provision in the third quarter of 2014, compared to a reversal of provision of $1.5 million in the third quarter of 2013. For the nine months ended September 30, 2014, we recorded a reversal of provision of $1.5 million, compared to a provision of $900 thousand during the same period in the prior year. Nonaccrual loans declined to $19.9 million at September 30, 2014, a decrease of $5.8 million, or 22.6%, from $25.7 million at December 31, 2013. Nonaccrual loans as a percentage of total loans was 1.00% at September 30, 2014 compared to 1.36% at December 31, 2013.

Net charge-offs of $57 thousand in the third quarter of 2014 were down $1.4 million from net charge-offs of $1.5 million in the third quarter of 2013. For the first nine months of 2014, net charge-offs were $478 thousand compared to $3.8 million in the same period last year. The decrease in net charge-offs in the three and nine months ended

September 30, 2014 compared to the same periods of 2013 was primarily due to lower charge-offs on single family and commercial real estate loans. For a more detailed discussion on our allowance for loan losses and related provision for loan losses, see *Credit Risk Management* within HomeStreet s Management s Discussion and Analysis of this Joint Proxy Statement.

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Provision for credit losses was $900 thousand in 2013, compared to $11.5 million in 2012, reflecting the improved credit quality of HomeStreet s loan portfolio. Nonaccrual loans declined to $25.7 million at December 31, 2013, a decrease of $4.2 million, or 14.0%, from $29.9 million at December 31, 2012. Nonaccrual loans as a percentage of total loans was 1.36% at December 31, 2013 compared to 2.24% at December 31, 2012. Criticized/classified loans declined to 5.01% of total loans from 11.08% of total loans a year ago. Loan delinquencies also decreased, with total loans past due decreasing to 4.44% of loans held for investment at December 31, 2013, compared to 6.58% at December 31, 2012. Overall, the allowance for credit losses decreased to $24.1 million, or 1.27% of loans held for investment at December 31, 2013, down from $27.8 million, or 2.07% of total loans held for investment at December 31, 2012.

Net charge-offs of $4.6 million for 2013 were down $22.0 million, or 82.8%, from net charge-offs of $26.5 million for 2012. Net charge-offs during 2012 included an $11.8 million charge-off related to the settlement of collection litigation and resolution of certain related nonperforming construction/land development loans with aggregate carrying values of $26.6 million. For a more detailed discussion on our allowance for loan losses and related provision for loan losses, see *Credit Risk Management* within HomeStreet s Management s Discussion and Analysis of this Joint Proxy Statement.

Noninterest Income

Quarter and Nine Month Period Ended September 30, 2014

Noninterest income was $45.8 million in the third quarter of 2014, an increase of $7.6 million, or 20.0%, from $38.2 million in the third quarter of 2013. For the first nine months of 2014, noninterest income was $134.2 million, a decrease of $20.5 million, or 13.3%, from $154.7 million in the same period last year. Our noninterest income is heavily dependent upon our single family mortgage banking activities, which are comprised of mortgage origination and sale as well as mortgage servicing activities. The level of our mortgage banking activity fluctuates and is influenced by mortgage interest rates, the economy, employment and housing supply and affordability, among other factors. The increase in noninterest income in the third quarter of 2014 compared to the third quarter of 2013 was primarily the result of higher net gain on mortgage loan origination and sale activities due mostly to increased interest rate lock commitment volumes and a $2.1 million increase in mortgage servicing income. Our single family mortgage interest rate lock commitments of $1.17 billion in the third quarter of 2014 increased 48.5% compared to $786.1 million in the third quarter of 2013. Included in noninterest income for the first nine months of 2014 were a $4.7 million pre-tax net increase in mortgage servicing income resulting from the sale of MSRs and a $4.6 million pre-tax gain on single family mortgage origination and sale activities from the sale of loans that were originally held for investment. No similar transactions occurred in the first nine months of 2013.

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Noninterest income consisted of the following.

(in thousands)	Three Months Ended September 30, 2014	2013	Dollar Change	Percent Change	Nine Months Ended September 30, 2014	2013	Dollar Change	Percent Change
Noninterest income								
Net gain on mortgage loan origination and sale activities[(1)]	$ 37,642	$ 33,491	$ 4,151	12%	$ 104,946[(2)]	$ 139,870	$ (34,924)	(25)%
Mortgage servicing income	6,155	4,011	2,144	53	24,284[(3)]	9,265	15,019	162
Income (loss) from WMS Series LLC	(122)	(550)	428	(78)	(69)	1,063	(1,132)	(106)
Loss on debt extinguishment	2		2	NM	(573)		(573)	NM
Depositor and other retail banking fees	944	791	153	19	2,676	2,273	403	18
Insurance agency commissions	256	242	14	6	892	612	280	46
Gain (loss) on securities available for sale	480	(184)	664	(361)	1,173	6	1,167	19,450
Other	456	373	83	22	841	1,584	(743)	(47)
Total noninterest income	$ 45,813	$ 38,174	$ 7,639	20%	$ 134,170	$ 154,673	$ (20,503)	(13)%

NM = not meaningful

(1) Single family and multifamily mortgage banking activities.
(2) Includes $4.6 million in pre-tax gain during the first six months of 2014 from the sale of loans that were originally held for investment.
(3) Includes pre-tax income of $4.7 million, net of transaction costs, resulting from the sale of single family MSRs during the quarter ended June 30, 2014.

The significant components of our noninterest income are described in greater detail, as follows.

Net gain on mortgage loan origination and sale activities consisted of the following.

(in thousands)	Three Months Ended September 30, 2014	2013	Dollar Change	Percent Change	Nine Months Ended September 30, 2014	2013	Dollar Change	Percent Change
Single family held for sale:								

Servicing value and secondary market gains(1)	$ 29,866	$ 23,076	$ 6,790	29%	$ 79,658	$ 110,760	$ (31,102)	(28)%
Loan origination and funding fees	6,947	8,302	(1,355)	(16)	18,489	24,363	(5,874)	(24)
Total single family held for sale	36,813	31,378	5,435	17	98,147	135,123	(36,976)	(27)
Multifamily	930	2,113	(1,183)	(56)	2,019	4,747	(2,728)	(57)
Other	(101)		(101)	NM	4,780(2)		4,780	NM
Net gain on mortgage loan origination and sale activities	$ 37,642	$ 33,491	$ 4,151	12%	$ 104,946	$ 139,870	$ (34,924)	(25)%

NM = not meaningful

(1) Comprised of gains and losses on interest rate lock commitments (which considers the value of servicing), single family loans held for sale, forward sale commitments used to economically hedge secondary market activities, and changes in HomeStreet s repurchase liability for loans that have been sold.

(2) Includes $4.6 million in pre-tax gain during the first six months of 2014 from the sale of loans that were originally held for investment.

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Single family production volumes related to loans designated for sale consisted of the following.

(in thousands)	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Dollar Change	Percent Change	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013	Dollar Change	Percent Change
Single family mortgage closed loan volume(1)	$ 1,294,895	$ 1,187,061	$ 107,834	9%	$ 3,069,882	$ 3,686,503	$ (616,621)	(17)%
Single family mortgage interest rate lock commitments(1)	1,167,677	786,147	381,530	49	3,172,650	3,245,259	(72,609)	(2)

(1) Includes loans originated by WMS Series LLC and purchased by HomeStreet Bank.
During the third quarter of 2014, single family closed loan production increased 9.1% and single family interest rate lock commitments increased 48.5% compared to the third quarter of 2013. For the first nine months of 2014, single family closed loan production decreased 16.7% and single family interest rate lock commitments decreased 2.2% compared to the same period last year. These decreases were mainly the result of higher mortgage interest rates beginning in the second quarter of 2013 that led to a reduction in refinance mortgage activity since then.

Net gain on mortgage loan origination and sale activities was $37.6 million for the third quarter of 2014, an increase of $4.2 million, or 12.4%, from $33.5 million for the third quarter of 2013. This increase predominantly reflected higher mortgage interest rate lock commitment volumes as a result of the expansion of our mortgage lending operations. Mortgage production personnel grew by approximately 26.8% at September 30, 2014 compared to September 30, 2013.

For the first nine months of 2014, net gain on mortgage loan origination and sale activities was $104.9 million, a decrease of $34.9 million, or 25.0%, from $139.9 million in the same period last year. Significant decreases in mortgage refinance activities were partially offset by a slow growing purchase market and the expansion of our mortgage lending operations. Included in net gain on mortgage loan origination and sale activities for the first nine months of 2014 was a $4.6 million pre-tax gain on single family mortgage origination and sale activities from the sale of loans that were originally held for investment.

HomeStreet records a liability for estimated mortgage repurchase losses, which has the effect of reducing net gain on mortgage loan origination and sale activities. The following table presents the effect of changes in HomeStreet s mortgage repurchase liability within the respective line items of net gain on mortgage loan origination and sale activities.

(in thousands)	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
Effect of changes to the mortgage repurchase liability recorded in net gain on mortgage loan origination and sale				

activities:								
New loan sales[1]	$	(518)	$	(505)	$	(1,070)	$	(1,513)
	$	(518)	$	(505)	$	(1,070)	$	(1,513)

(1) Represents the estimated fair value of the repurchase or indemnity obligation recognized as a reduction of proceeds on new loan sales.

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Mortgage servicing income consisted of the following.

(in thousands)	Three Months Ended September 30, 2014	2013	Dollar Change	Percent Change	Nine Months Ended September 30, 2014	2013	Dollar Change	Percent Change
Servicing income, net:								
Servicing fees and other	$ 9,350	$ 8,934	$ 416	5%	$ 29,311	$ 24,497	$ 4,814	20%
Changes in fair value of MSRs due to modeled amortization[1]	(6,212)	(5,665)	(547)	10	(19,289)	(18,305)	(984)	5
Amortization of multifamily MSRs	(425)	(433)	8	(2)	(1,283)	(1,347)	64	(5)
	2,713	2,836	(123)	(4)	8,739	4,845	3,894	80
Risk management:								
Changes in fair value of MSRs due to changes in model inputs and/or assumptions[2]	899	(2,456)	3,355	(137)	(7,836)[3]	16,812	(24,648)	(147)
Net gain (loss) from derivatives economically hedging MSRs	2,543	3,631	(1,088)	(30)	23,381	(12,392)	35,773	(289)
	3,442	1,175	2,267	193	15,545	4,420	11,125	252
Mortgage servicing income	$ 6,155	$ 4,011	$ 2,144	53%	$ 24,284	$ 9,265	$ 15,019	162%

NM = not meaningful

(1) Represents changes due to collection/realization of expected cash flows and curtailments.
(2) Principally reflects changes in model assumptions, including prepayment speed assumptions, which are primarily affected by changes in mortgage interest rates.
(3) Includes pre-tax income of $4.7 million, net of brokerage fees and prepayment reserves, resulting from the sale of single family MSRs during the during the quarter ended June 30, 2014.

For the third quarter of 2014, mortgage servicing income was $6.2 million, an increase of $2.1 million, or 53.5%, from $4.0 million in the third quarter of 2013, primarily due to improved risk management results.

MSR risk management results represent changes in the fair value of single family MSRs due to changes in model inputs and assumptions net of the gain/(loss) from derivatives economically hedging MSRs. The fair value of MSRs is sensitive to changes in interest rates, primarily due to the effect on prepayment speeds. MSRs typically decrease in value when interest rates decline because declining interest rates tend to increase mortgage prepayment speeds and therefore reduce the expected life of the net servicing cash flows of the MSR asset. Certain other changes in MSR fair value relate to factors other than interest rate changes and are generally not within the scope of HomeStreet s MSR economic hedging strategy. These factors may include but are not limited to the impact of changes to the housing price index, the level of home sales activity, changes to mortgage spreads, valuation discount rates, costs to service and policy changes by U.S. government agencies.

The net performance of our MSR risk management activities for the third quarter of 2014 was a gain of $3.4 million compared to a gain of $1.2 million in the third quarter of 2013. The higher hedging gain in 2014 largely reflected higher sensitivity to interest rates for HomeStreet s MSRs, which led HomeStreet to increase the notional amount of derivative instruments used to economically hedge MSRs. The higher notional amount of derivative instruments, along with a steeper yield curve, resulted in higher net gains from MSR risk management, which positively impacted mortgage servicing income. In addition, MSR risk management results for 2014

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reflected the impact on the fair value of MSRs of changes in model inputs and assumptions related to historically low prepayment speeds experienced during 2014 resulting in lower projected prepayment speeds.

Mortgage servicing fees collected in the third quarter of 2014 were $9.4 million, an increase of $416 thousand, or 4.7%, from $8.9 million in the third quarter of 2013. Our loans serviced for others portfolio was $11.38 billion at September 30, 2014 compared to $12.61 billion at December 31, 2013 and $12.06 billion at September 30, 2013. The lower balance at quarter end was the result of the June 30, 2014 sale of the rights to service $2.96 billion of single family mortgage loans. Mortgage servicing fees collected in future periods will be negatively impacted in the short term because the balance of the loans serviced for others portfolio was reduced as a consequence of this sale.

Income (loss) from WMS Series LLC in the third quarter of 2014 was a loss of $122 thousand compared to a loss of $550 thousand in the third quarter of 2013. The improvement in 2014 was primarily due to a 3.6% increase in interest rate lock commitments and a 24.4% decrease in closed loan volume, which were $114.7 million and $145.8 million, respectively, for the three months ended September 30, 2014 compared to $110.7 million and $192.9 million, respectively, for the same period in 2013.

Depositor and other retail banking fees for the three and nine months ended September 30, 2014 increased from the three and nine months ended September 30, 2013, primarily driven by an increase in the number of transaction accounts as we grow our retail deposit branch network. The following table presents the composition of depositor and other retail banking fees for the periods indicated.

(in thousands)	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Dollar Change	Percent Change	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013	Dollar Change	Percent Change
Fees:								
Monthly maintenance and deposit-related fees	$ 423	$ 387	$ 36	9%	$ 1,241	$ 1,106	$ 135	12%
Debit Card/ATM fees	511	381	130	34	1,397	1,104	293	27
Other fees	10	23	(13)	(57)	38	63	(25)	(40)
Total depositor and other retail banking fees	$ 944	$ 791	$ 153	19%	$ 2,676	$ 2,273	$ 403	18%

Fiscal Year Ended December 31, 2013

Noninterest income was $190.7 million for the year ended December 31, 2013, a decrease of $47.3 million, or 19.9%, from noninterest income of $238.0 million for 2012. Our noninterest income is heavily dependent upon our single family mortgage banking activities, which are comprised of mortgage origination and sale and mortgage servicing activities. The level of our mortgage banking activity fluctuates and is influenced by mortgage interest rates, the economy, employment and housing supply and affordability, among other factors. The decrease in noninterest income in 2013 compared to 2012 was primarily the result of lower net gain on mortgage loan origination and sale activities, mostly related to substantially lower refinancing activities that resulted mainly from increased mortgage interest rates, partially offset by growth in our purchase mortgage transactions and the expansion of our mortgage lending operations.

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Noninterest income consisted of the following:

(in millions)	Year Ended December 31, 2013	2012	Dollar Change	Percentage Change
Net gain on mortgage loan origination and sale activities[1]	$ 164,712	$ 210,564	$ (45,852)	(22)%
Mortgage servicing income	17,073	16,121	952	6
Income from WMS Series LLC	704	4,264	(3,560)	(83)
Loss on debt extinguishment		(939)	939	(100)
Depositor and other retail banking fees	3,172	3,062	119	4
Insurance agency commissions	864	743	121	16
Gain on sale of investment securities available for sale	1,772	1,490	282	19
Other	2,448	2,715	(267)	(10)
Total noninterest income	$ 190,745	$ 238,020	$ (47,275)	(20)%

(1) Single family and multifamily mortgage banking activities.

The significant components of our noninterest income are described in greater detail, as follows.

Net gain on mortgage loan origination and sale activities consisted of the following:

(in thousands)	Year Ended December 31, 2013	2012	Dollar Change	Percentage Change
Single family:				
Servicing value and secondary market gains[1]	$ 128,391	$ 175,655	$ (47,264)	(27)%
Loan origination and funding fees	30,051	30,037	14	
Total single family	158,442	205,692	(47,250)	(23)
Multifamily	5,306	4,872	434	9
Other	964		(964)	NM
Net gain on mortgage loan origination and sale activities	$ 164,712	$ 210,564	$ (48,852)	(22)%

NM Not meaningful

(1) Comprised of gains and losses on interest rate lock commitments (which considers the value of servicing), single family loans held for sale, forward sale commitments used to economically hedge secondary market activities, and changes in HomeStreet s repurchase liability for loans that have been sold.

Net gain on mortgage loan origination and sale activities was $164.7 million in 2013, a decrease of $45.9 million, or 21.8%, from $210.6 million in 2012. This decrease predominantly reflected substantially lower mortgage interest rate lock commitment volumes and lower secondary marketing gains. Commitment volumes declined mainly due to the rise in mortgage interest rates beginning in the second quarter of 2013, causing a significant decrease in refinancing activity that was only partially offset by a slightly stronger purchase mortgage market. This impact was partially mitigated by the expansion of our mortgage lending operations as we added approximately 120 mortgage origination and support personnel during 2013.

Single family production volumes related to loans designated for sale consisted of the following:

(in thousands)	**Year Ended December 31, 2013**	**2012**	**Dollar Change**	**Percentage Change**
Single family mortgage closed loan volume[1]	$ 4,459,649	$ 4,668,167	$ (208,518)	(4)%
Single family mortgage interest rate lock commitments[2]	$ 3,907,274	$ 4,786,667	$ (879,393)	(18)%

(1) Represents single family mortgage originations designated for sale during each respective period.
(2) Includes loans originated by WMS Services LLC (WMS) and purchased by HomeStreet Bank.

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During 2013, single family closed loan production decreased 4.5% and single family interest rate lock commitments decreased 18.4% from 2012 mainly as a result of higher mortgage interest rates during 2013. Our production mix continued to shift from the refinance mortgage market to the purchase mortgage market during 2013.

HomeStreet records a liability for estimated mortgage repurchase losses, which has the effect of reducing net gain on mortgage loan origination and sale activities. The following table presents the effect of changes in HomeStreet s mortgage repurchase liability within the respective line items of net gain on mortgage loan origination and sale activities. For further information on HomeStreet s mortgage repurchase liability, see Note 14, Commitments, Guarantees and Contingencies to the financial statements of this joint proxy statement.

(in thousands)	Year Ended December 31, 2013	Year Ended December 31, 2012
Effect of changes to the mortgage repurchase liability recorded in net gain on mortgage loan origination and sale activities:	$ (1,828)	$ (1,348)
New loan sales(1)		(2,969)
Other changes in estimated repurchase losses(2)	$ (1,828)	$ (4,317)

(1) Represents the estimated fair value of the repurchase or indemnity obligation recognized as a reduction of proceeds on new loan sales.
(2) Represents changes in estimated probable future repurchase losses on previously sold loans.

Mortgage servicing income consisted of the following:

(in thousands)	Year Ended December 31, 2013	Year Ended December 31, 2012	Dollar Change	Percentage Change
Servicing income, net:				
Servicing fees and other	$ 34,173	$ 27,833	$ 6,340	23%
Changes in fair value of MSRs due to modeled amortization(1)	(20,533)	(20,662)	129	(1)
Amortization	(1,803)	(2,014)	211	(10)
	11,837	5,157	6,680	130%
Risk management:				
Changes in fair value of MSRs due to changes in model inputs and/or assumptions(2)	25,668	(11,018)	36,686	(333)%
Net (loss) gain from derivatives economically hedging MSRs	(20,432)	21,982	(42,414)	(193)
	5,236	10,964	(5,728)	(52)
Mortgage servicing income	$ 17,073	$ 16,121	$ 952	6%

(1) Represents changes due to collection/realization of expected cash flows and curtailments.
(2) Principally reflects changes in model assumptions, including prepayment speed assumptions, which are primarily affected by changes in mortgage interest rates.

For the year ended December 31, 2013, mortgage servicing income of $17.1 million increased $1.0 million from $16.1 million in 2012, primarily due to increased servicing fees collected during 2013 on HomeStreet s single family mortgage servicing. This increase was partially offset by lower MSR risk management results, which represents changes in the fair value of single family MSRs due to changes in model inputs and assumptions net of the gain/(loss) from derivatives economically hedging MSRs. The fair value of MSRs is sensitive to changes in interest rates, primarily due to the effect on prepayment speeds. MSRs typically decrease in value when

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interest rates decline because declining interest rates tend to increase mortgage prepayment speeds and therefore reduce the expected life of the net servicing cash flows of the MSR asset. Certain other changes in MSR fair value relate to factors other than interest rate changes and are generally not within the scope of HomeStreet s MSR economic hedging strategy. These factors may include but are not limited to the impact of changes to the housing price index, the level of home sales activity, changes to mortgage spreads, valuation discount rates, costs to service and policy changes by U.S. government agencies.

The net performance of our MSR risk management activities for 2013 was a gain of $5.2 million compared to a gain of $11.0 million in 2012. The lower gain in 2013 largely reflected lower sensitivity to interest rates for HomeStreet s MSRs, which led HomeStreet to reduce the notional amount of derivative instruments used to economically hedge MSRs. The lower notional amount of derivative instruments, along with a flatter yield curve, resulted in lower net gains from MSR risk management, which negatively impacted mortgage servicing income. In addition, MSR risk management results for 2013 reflected the impact on the fair value of MSRs of changes in model inputs and assumptions related to factors other than interest rate changes, such as higher expected home values which generally lead to higher projected prepayment speeds, and a decline in income from MSR risk management activities in 2013.

Mortgage servicing fees collected in 2013 were $34.2 million, an increase of $6.3 million, or 22.8%, from $27.8 million in 2012 primarily as a result of the increase in the loans serviced for others portfolio. Our loans serviced for others portfolio increased to $12.61 billion at December 31, 2013 from $9.65 billion at December 31, 2012.

Income from WMS Series LLC in 2013 was $704 thousand compared to $4.3 million in 2012. The decrease in 2013 was primarily due to a 33.6% decrease in interest rate lock commitments and a 25.5% decrease in closed loan volume, which were $548.7 million and $694.4 million in 2013, respectively, compared to $825.8 million and $932.4 million in 2012.

Loss on debt extinguishment. We recorded no loss on debt extinguishment in 2013 compared to a loss of $939 thousand in 2012, primarily as a result of a prepayment fee for the early retirement of $25.5 million of long-term FHLB advances. This prepayment resulted in reduced interest expense in 2013 as we replaced high-cost, long-term FHLB advances with other lower-cost, short-term borrowings.

Depositor and other retail banking fees for 2013 were relatively consistent with 2012 results. The following table presents the composition of depositor and other retail banking fees for the periods indicated.

	Year Ended December 31,		**Dollar**	**Percentage**
(in thousands)	**2013**	**2012**	**Change**	**Change**
Monthly maintenance and deposit-related fees	$ 1,568	$ 1,569	$ (1)	%
Debit Card/ATM fees	1,523	1,396	127	9
Other fees	81	97	(16)	(16)
Total depositor and other retail banking fees	$ 3,172	$ 3,062	$ 110	4%

Insurance agency commissions increased to $864 thousand from $743 thousand in 2012. This increase in commissions primarily resulted from increased personal and casualty insurance line sales.

Gain on investment securities available for sale was $1.8 million in 2013 compared to $1.5 million in 2012, as HomeStreet re-balanced its portfolio and provided liquidity for the growth in lending volumes.

Other income was $2.4 million in 2013, relatively consistent with $2.7 million in 2012.

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Noninterest Expense

Quarter and Nine Month Period Ended September 30, 2014

Noninterest expense was $64.2 million in the third quarter of 2014, an increase of $6.0 million, or 10.4%, from $58.1 million in the third quarter of 2013. For the first nine months of 2014, noninterest expense was $183.2 million, an increase of $12.6 million, or 7.4%, from $170.6 million for the same period last year. The increase in noninterest expense in the third quarter of 2014 was primarily the result of a $2.9 million increase in salaries and related costs, a $1.5 million increase in occupancy, and a $1.1 million increase in general and administrative costs. The increase in noninterest expense for the three and nine months of 2014 compared to prior year was primarily a result of the integration of our acquisitions and a 12.1% growth in personnel in connection with our continued expansion of our mortgage banking and commercial and consumer businesses. These additions to personnel were partially offset by attrition and position eliminations in mortgage production, mortgage operations, and in commercial lending and administration. We have been eliminating positions since the fourth quarter of 2013 in response to a slowdown in mortgage activity as well as the integration of our acquisitions and we expect such eliminations to improve efficiency and performance.

Noninterest expense consisted of the following.

(in thousands)	Three Months Ended September 30, 2014	2013	Dollar Change	Percent Change	Nine Months Ended September 30, 2014	2013	Dollar Change	Percent Change
Noninterest expense								
Salaries and related costs	$ 42,604	$ 39,689	$ 2,915	7%	$ 118,681	$ 113,330	$ 5,351	5%
General and administrative	10,326	9,234	1,092	12	31,593	30,434	1,159	4
Legal	630	844	(214)	(25)	1,571	2,054	(483)	(24)
Consulting	628	884	(256)	(29)	2,182	2,343	(161)	(7)
Federal Deposit Insurance Corporation assessments	682	227	455	200	1,874	937	937	100
Occupancy	4,935	3,484	1,451	42	14,042	9,667	4,375	45
Information services	4,220	3,552	668	19	13,597	10,122	3,475	34
Net cost of operation and sale of other real estate owned	133	202	(69)	(34)	(320)	1,740	(2,060)	(118)
Total noninterest expense	$ 64,158	$ 58,116	$ 6,042	10%	$ 183,220	$ 170,627	$ 12,593	7%

The significant components of our noninterest expense are described in greater detail, as follows.

Salaries and related costs were $42.6 million in the third quarter of 2014, an increase of $2.9 million, or 7.3%, from $39.7 million in the third quarter of 2013. For the first nine months of 2014, salaries and related costs were $118.7 million, an increase of $5.4 million, or 4.7%, from $113.3 million for the same period last year. These increases primarily resulted from a 12.1% increase in full-time equivalent employees at September 30, 2014 compared to

September 30, 2013.

General and administrative expense was $10.3 million in the third quarter of 2014, an increase of $1.1 million, or 11.8%, from $9.2 million in the third quarter of 2013. For the first nine months of 2014, general and administrative expenses were $31.6 million, an increase of $1.2 million, or 3.8%, from $30.4 million for the same period last year. These expenses include general office and equipment expense, marketing, taxes and insurance.

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Fiscal Year Ended December 31, 2013

Noninterest expense was $229.5 million in 2013, an increase of $45.9 million, or 25.0%, from $183.6 million in 2012. Included in noninterest expense in 2013 were acquisition-related expenses of $4.5 million. The increase in noninterest expense was primarily the result of a $29.6 million increase in salaries and related costs and a $12.5 million increase in general and administrative expenses resulting from a 37% growth in personnel in connection with our continued expansion of our mortgage banking and commercial and consumer businesses. These additions to personnel were partially offset by attrition and position eliminations in mortgage production, mortgage operations, and in commercial lending and administration. Position eliminations in 2013 were in response to a slowdown in mortgage activity and the integration of our acquisitions and were intended to improve efficiency and performance. These increases in noninterest expense were partially offset by significantly lower other real estate owned (OREO) expenses, which were $1.8 million in 2013, a decrease of $8.3 million from OREO expense of $10.1 million in 2012.

Noninterest expense consisted of the following:

(in thousands)	**Year Ended December 31, 2013**	**2012**	**Dollar Change**	**Percentage Change**
Noninterest expense				
Salaries and related costs	$ 149,440	$ 119,829	$ 29,611	25%
General and administrative	40,366	27,838	12,528	45
Legal	2,552	1,796	756	42
Consulting	5,637	3,037	2,600	86
Federal Deposit Insurance Corporation assessments	1,433	3,554	(2,121)	(60)
Occupancy	13,765	8,585	5,180	60
Information services	14,491	8,867	5,624	63
Net costs of operation and sale of other real estate owned	1,811	10,085	(8,274)	(82)
Total depositor and other retail banking fees	$ 229,495	$ 183,591	$ 45,904	25%

The significant components of our noninterest expense are described in greater detail, as follows.

Salaries and related costs were $149.4 million in 2013, an increase of $29.6 million, or 24.7%, from $119.8 million in 2012. The increase primarily resulted from a 36.7% increase in full-time equivalent employees at December 31, 2013 compared to December 31, 2012, as well as commissions and incentives paid to employees for 2013 due to the overall growth in our mortgage lending and commercial and consumer business lines.

General and administrative expense was $40.4 million in 2013, an increase of $12.5 million, or 45.0%, from $27.8 million in 2012. These expenses include general office and equipment expense, marketing, taxes and insurance. The increase in general and administrative expense in 2013 was primarily due to HomeStreet growth and increased marketing expenses.

Consulting expense was $5.6 million in 2013, an increase of $2.6 million, or 85.6%, from $3.0 million in 2012, primarily due to acquisition-related activities.

FDIC assessments were $1.4 million in 2013, a decrease of $2.1 million, or 59.7%, from $3.6 million in 2012, primarily due to an improvement in HomeStreet s risk category.

Occupancy expense was $13.8 million in 2013, an increase of $5.2 million, or 60.3%, from $8.6 million in 2012 as we grew our mortgage banking business and consumer and commercial customer base with the opening of 19 new mortgage loan origination offices, two commercial lending offices and two de novo retail deposit branches in 2013. Additionally, we added six retail deposit branches through acquisitions during the fourth quarter of 2013.

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Information services expense was $14.5 million in 2013, an increase of $5.6 million, or 63.4%, from $8.9 million in 2012. This increase was primarily due to company-wide systems and tools upgrades and a 36.7% increase in headcount.

Net cost of operation and sale of other real estate owned was $1.8 million in 2013, a decrease of $8.3 million from $10.1 million in 2012. OREO valuation adjustments were $603 thousand for 2013 compared to valuation adjustments of $12.2 million in 2012. Valuation adjustments to OREO balances declined with the reduction in the net balance of OREO properties in 2013. Lower balances of OREO properties also resulted in decreased maintenance expenses.

Income Tax Expense

HomeStreet s income tax expense was $2.0 million inclusive of discrete items, representing an income tax rate of 28.6% for the third quarter of 2014. In the third quarter of 2013, HomeStreet s tax expense was $308 thousand, inclusive of discrete items, representing an effective rate of 15.6%. For the first nine months of 2014, income tax expense was $7.0 million, inclusive of discrete items, compared to $11.5 million, inclusive of discrete items, for the same period last year. Our effective income tax rate was 29.6%, inclusive of discrete items, for the nine months ended September 30, 2014, compared to an effective tax rate of 31.6% for the year end 2013. Our effective income tax rate in the three and nine months ended September 30, 2014 differed from the Federal statutory tax rate of 35% due to the benefit of tax-exempt interest income, the benefit of low income housing tax credit investments, and the impact of updated state income tax for Oregon, Hawaii, California, and Idaho. Included in income tax expense for the first nine months of 2014 are $613 thousand of discrete tax items related to the adoption of ASU 2014-01, recorded in the first quarter, and federal return to provision true ups and updates to the effective state tax rate.

HomeStreet s income tax expense was $11.0 million for the year ended December 31, 2013 compared to $21.5 million for the year ended December 31, 2012. HomeStreet s 2013 tax expense is based on the annual effective income tax rate plus discrete benefits recognized during the year. HomeStreet s annual effective income tax rate for the year was 31.6% compared to an annual effective income tax rate of 20.8% for 2012. The lower effective income tax rate in 2012 primarily reflected the benefit of a full reversal of deferred tax asset valuation allowances during 2012.

Capital Expenditures

During 2013, our net expenditures for property and equipment were $22.8 million compared to net expenditures of $11.4 million during 2012, as we continued to implement our strategic initiatives regarding the expansion of our mortgage banking and commercial and consumer businesses.

Review of Financial Condition Comparison of September 30, 2014 to December 31, 2013

Total assets were $3.47 billion at September 30, 2014 and $3.07 billion at December 31, 2013. The increase in total assets was primarily due to a $418.2 million increase in loans held for sale and a $92.9 million increase in loans held for investment, partially offset by a $48.9 million decrease in investment securities. The increase in loan balances was the result of the organic growth of HomeStreet, partially offset by the transfer of $310.5 million of single family mortgage loans out of the held for investment portfolio and into loans held for sale in March of this year and the subsequent sale of $266.8 million of these loans.

Cash and cash equivalents was $34.7 million at September 30, 2014 compared to $33.9 million at December 31, 2013, an increase of $779 thousand, or 2.3%.

Investment securities were $449.9 million at September 30, 2014 compared to $498.8 million at December 31, 2013, a decrease of $48.9 million, or 9.8%, primarily due to sales of securities.

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We primarily hold investment securities for liquidity purposes, while also creating a relatively stable source of interest income. We designated substantially all securities as available for sale. We held securities having a carrying value of $17.9 million at September 30, 2014, which were designated as held to maturity. The following table details the composition of our investment securities available for sale by dollar amount and as a percentage of the total available for sale securities portfolio.

	At September 30, 2014		At December 31, 2013	
(in thousands)	Fair Value	Percent	Fair Value	Percent
Investment securities available for sale:				
Mortgage-backed securities:				
Residential	$ 110,837	25.7%	$ 133,910	27.8%
Commercial	13,571	3.1	13,433	2.8
Municipal bonds	123,042	28.5	130,850	27.2
Collateralized mortgage obligations:				
Residential	54,888	12.7	90,327	18.8
Commercial	15,632	3.6	16,845	3.5
Corporate debt securities	72,112	16.7	68,866	14.3
U.S. Treasury securities	42,014	9.7	27,452	5.7
Total investment securities available for sale	$ 432,096	100.0%	$ 481,683	100.0%

Loans held for sale were $698.1 million at September 30, 2014 compared to $279.9 million at December 31, 2013, an increase of $418.2 million, or 149.4%. Loans held for sale include single family and multifamily residential loans, typically sold within 30 days of closing the loan. The increase in the loans held for sale balance is primarily due to increased single family mortgage closed loan volume during the quarter.

Loans held for investment, net were $1.96 billion at September 30, 2014 compared to $1.87 billion at December 31, 2013, a increase of $92.9 million, or 5.0%. Our single family loan portfolio decreased $116.7 million from December 31, 2013, as HomeStreet transferred $310.5 million of single family mortgage loans out of the portfolio and into loans held for sale in March of this year. Our construction loans, including commercial construction and residential construction, increased $167.3 million from December 31, 2013, primarily from new originations in our commercial real estate and residential construction lending business.

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Mortgage servicing rights were $124.6 million at September 30, 2014 compared to $162.5 million at December 31, 2013, a decrease of $37.9 million, or 23.3%. The decline in the size of our servicing portfolio was the result of a strategic decision to sell a portion of our single family MSRs to increase capital in preparation for compliance with the new Basel III regulatory capital standards. During the second quarter of 2014, HomeStreet sold the rights to service $2.96 billion of single family mortgage loans serviced for Fannie Mae.The following table details the composition of our loans held for investment portfolio by dollar amount and as a percentage of our total loan portfolio.

	At September 30, 2014		At December 31, 2013	
(in thousands)	Amount	Percent	Amount	Percent
Consumer loans				
Single family	$ 788,232	39.6%	$ 904,913	47.7%
Home equity	138,276	6.9	135,650	7.1
	926,508	46.5	1,040,563	54.8
Commercial loans				
Commercial real estate(1)	530,335	26.6	477,642	25.1
Multifamily	62,498	3.1	79,216	4.2
Construction/land development	297,790	15.0	130,465	6.9
Commercial business	173,226	8.8	171,054	9.0
	1,063,849	53.5	858,377	45.2
	1,990,357	100.0%	1,898,940	100.0%
Net deferred loan fees and costs	(3,748)		(3,219)	
	1,986,609		1,895,721	
Allowance for loan losses	(21,847)		(23,908)	
	$ 1,964,762		$ 1,871,813	

(1) September 30, 2014 and December 31, 2013 balances comprised of $137.5 million and $156.7 million of owner occupied loans, respectively, and $392.8 million and $320.9 million of non-owner occupied loans, respectively.

Deposits were $2.43 billion at September 30, 2014 compared to $2.21 billion at December 31, 2013, an increase of $214.6 million, or 9.7%. This increase was due to higher balances of transaction and savings deposits, which were $1.77 billion at September 30, 2014, an increase of $234.8 million, or 15.3%, from $1.54 billion at December 31, 2013, reflecting the organic growth and expansion of our branch banking network. Certificates of deposit balances were $367.1 million at September 30, 2014, a decrease of $147.3 million, or 28.6%, from $514.4 million at December 31, 2013.

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Deposit balances by dollar amount and as a percentage of our total deposits were as follows for the periods indicated:

	At September 30, 2014		At December 31, 2013	
(in thousands)	Amount	Percent	Amount	Percent
Noninterest-bearing accounts checking and savings	$ 271,669	11.2%	$ 199,943	9.0%
Interest-bearing transaction and savings deposits:				
NOW accounts	300,832	12.4	262,138	11.9
Statement savings accounts due on demand	184,656	7.6	156,181	7.1
Money market accounts due on demand	1,015,266	41.9	919,322	41.6
Total interest-bearing transaction and savings deposits	1,500,754	61.9	1,337,641	60.6
Total transaction and savings deposits	1,772,423	73.1	1,537,584	69.6
Certificates of deposit	367,124	15.1	514,400	23.3
Noninterest-bearing accounts other	285,911	11.8	158,837	7.1
Total deposits	$ 2,425,458	100.0%	$ 2,210,821	100.0%

Federal Home Loan Bank advances were $598.6 million at September 30, 2014 compared to $446.6 million at December 31, 2013, an increase of $152.0 million, or 34.0%. HomeStreet uses these borrowings to primarily fund our mortgage banking and securities investment activities.

Long-term debt was $61.9 million at September 30, 2014 compared to $64.8 million at December 31, 2013, a decrease of $3.0 million, or 4.6%. During the first quarter of 2014, we redeemed $3.0 million of TruPS that were acquired as part of the acquisition of YNB in 2013.

Review of Financial Condition Comparison of December 31, 2013 to December 31, 2012

Total assets were $3.07 billion at December 31, 2013 and $2.63 billion at December 31, 2012. The increase in total assets was primarily due to an $82.3 million increase in investment securities and a $562.8 million increase in portfolio loans, partially offset by a $340.9 million decrease in loans held for sale.

Cash and cash equivalents was $33.9 million at December 31, 2013, compared to $25.3 million at December 31, 2012, an increase of $8.6 million, or 34.1%.

Investment securities was $498.8 million at December 31, 2013, compared to $416.5 million at December 31, 2012, an increase of $82.3 million, or 19.8%. The higher balance of our investment securities portfolio reflected management s decision in the second quarter of 2013 to increase this component of the overall asset mix and to add corporate debt securities to HomeStreet s portfolio. With HomeStreet s improved credit position and excess capital, the investment in corporate debt securities provided diversification in HomeStreet s investment securities portfolio with minimal additional credit risk.

We primarily hold investment securities for liquidity purposes, while also creating a relatively stable source of interest income. We designated substantially all securities as available for sale. We held securities having a carrying value of $17.1 million, which were designated as held to maturity.

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The following table sets forth certain information regarding the amortized cost and fair values of our investment securities available for sale.

	At December 31,			
	2013		2012	
(in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Available for sale:				
Mortgage-backed securities:				
Residential	$ 137,602	$ 133,910	$ 62,847	$ 62,853
Commercial	13,391	13,433	13,720	14,380
Municipal bonds	136,937	130,850	123,695	129,175
Collateralized mortgage obligations:				
Residential	93,112	90,327	163,981	170,199
Commercial	17,333	16,845	8,983	9,043
Corporate debt securities	75,542	68,866		
U.S. Treasury securities	27,478	27,452	30,670	30,679
Total available for sale	$ 501,395	$ 481,683	$ 403,896	$ 416,329

Mortgage-backed securities (MBS) and collateralized mortgage obligations (CMO) represent securities issued by government sponsored entities (GSEs). Each of the MBS and CMO securities in our investment portfolio are guaranteed by Fannie Mae, Ginnie Mae or Freddie Mac. Municipal bonds are comprised of general obligation bonds (i.e., backed by the general credit of the issuer) and revenue bonds (i.e., backed by revenues from the specific project being financed) issued by various municipal corporations. As of December 31, 2013 and 2012, all securities held, including municipal bonds and corporate debt securities, were rated investment grade based upon external ratings where available and, where not available, based upon internal ratings which correspond to ratings as defined by Standard and Poor s Rating Services (S&P) or Moody s Investors Services (Moody s). As of December 31, 2013 and 2012, substantially all securities held by HomeStreet had ratings available by external ratings agencies.

The following tables present the fair value of investment securities available for sale by contractual maturity along with the associated contractual yield for the periods indicated below. Contractual maturities for mortgage-backed securities and collateralized mortgage obligations as presented exclude the effect of expected prepayments. Expected maturities will differ from contractual maturities because borrowers may have the right to prepay obligations before the underlying mortgages mature. The weighted-average yield is computed using the contractual coupon of each security weighted based on the fair value of each security and does not include adjustments to a tax equivalent basis.

	At December 31, 2013									
	Within one year		After one year through five years		After five years through ten years		After ten years		Total	
(in thousands)	Fair Value	Weighted Average Yield	Fair Value	Weighted Average Yield	Fair Value	Weighted Average Yield	Fair Value	Weighted Average Yield	Fair Value	Weighted Average Yield

Mortgage-backed securities:										
Residential	$	%	$	%	$ 10,581	1.63%	$ 123,329	1.82%	$ 133,910	1.81%
Commercial							13,433	4.51	13,433	4.51
Municipal bonds					19,598	3.51	111,252	4.29	130,850	4.17
Collateralized mortgage obligations:										
Residential					19,987	2.31	70,340	2.17	90,327	2.20
Commercial					5,270	1.90	11,575	1.42	16,845	1.57
Corporate debt securities					32,848	3.31	36,018	3.75	68,866	3.54
U.S. Treasury securities	1,001	0.18	26,451	0.30					27,452	0.29
Total available for sale	$ 1,001	0.18%	$ 26,451	0.30%	$ 88,284	2.84%	$ 365,947	2.92%	$ 481,683	2.75%

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	At December 31, 2012									
	Within one year		After one year Through five years		After five years through ten years		After ten years		Total	
(in thousands)	Fair Value	Weighted average yield	Fair value	Weighted average yield	Fair value	Weighted average yield	Fair value	Weighted average yield	Fair value	Weighted average yield
Mortgage-backed securities:										
Residential	$	%	$	%	$	%	$ 62,853	2.81%	$ 62,853	2.81%
Commercial							14,380	4.03	14,380	4.03
Municipal bonds					15,673	3.64	113,502	4.66	129,175	4.53
Collateralized mortgage obligations:										
Residential							170,199	2.64	170,199	2.64
Commercial							9,043	2.06	9,043	2.06
U.S. Treasury securities	30,679	0.23							30,679	0.23
Total available for sale	$ 30,679	0.23%	$	%	$ 15,673	3.64%	$ 369,977	3.33%	$ 416,329	3.11%

Each of the MBS and CMO securities in our investment portfolio are guaranteed by Fannie Mae, Ginnie Mae or Freddie Mac. Investments in these instruments involve a risk that actual prepayments will vary from the estimated prepayments over the life of the security. This may require adjustments to the amortization of premium or accretion of discount relating to such instruments, thereby changing the net yield on such securities. At December 31, 2013, the aggregate net premium associated with our MBS portfolio was $10.5 million, or 8.7%, of the aggregate unpaid principal balance, compared with $6.8 million or 9.8% at December 31, 2012. The aggregate net premium associated with our CMO portfolio as of December 31, 2013 was $6.4 million, or 6.1%, of the aggregate unpaid principal balance, compared with $7.6 million or 4.6% at December 31, 2012. There is also reinvestment risk associated with the cash flows from such securities and the market value of such securities may be adversely affected by changes in interest rates.

Management monitors the portfolio of securities classified as available for sale for impairment, which may result from credit deterioration of the issuer, changes in market interest rates relative to the rate of the instrument or changes in prepayment speeds. We evaluate each investment security on a quarterly basis to assess if impairment is considered other than temporary. In conducting this evaluation, management considers many factors, including but not limited to whether we expect to recover the entire amortized cost basis of the security in light of adverse changes in expected future cash flows, the length of time the security has been impaired and the severity of the unrealized loss. We also consider whether we intend to sell the security (or whether we will be required to sell the security) prior to recovery of its amortized cost basis, which may be at maturity.

Based on this evaluation, management concluded that unrealized losses as of December 31, 2013 were the result of changes in interest rates. Management does not intend to sell such securities nor is it likely it will be required to sell such securities prior to recovery of the securities amortized cost basis. Accordingly, none of the unrealized losses as of December 31, 2013 were considered other than temporary.

Loans held for sale were $279.9 million at December 31, 2013, compared to $620.8 million as of December 31, 2012, a decrease of $340.9 million, or 54.9%. Loans held for sale include single family and multifamily residential loans, typically sold within 30 days of closing the loan. The decrease in loans held for sale was primarily the result of rising mortgage interest rates and declining refinancing loan volume, coupled with low housing inventories that have constrained the purchase mortgage market.

Loans held for investment, net were $1.87 billion at December 31, 2013, compared to $1.31 billion as of December 31, 2012, an increase of $562.8 million, or 43.0%. Our single family loan portfolio increased by $231.0 million from December 31, 2012, primarily as a result of increased originations of mortgages that exceed conventional conforming loan limits. Our commercial real estate and multifamily loan balances increased a combined $178.0 million and our commercial business loans increased $91.5 million from December 31, 2012 primarily as a result of the growth of our commercial real estate lending business, both organically and through acquisition. The following table details the composition of our loans held for investment portfolio by dollar amount and as a percentage of our total loan portfolio.

	At December 31,									
	2013		2012		2011		2010		2009	
n thousands)	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
onsumer oans:										
ingle family	$ 904,913	47.7%	$ 673,865	50.3%	$ 496,934	36.9%	$ 526,462	32.7%	$ 590,695	28.4%
ome equity	135,650	7.1	136,746	10.2	158,936	11.8	181,537	11.3	209,944	10.2
	1,040,563	54.8	810,611	60.5	655,870	48.7	707,999	44.0	800,639	38.6
ommercial oans:										
ommercial eal estate(1)	477,642	25.1	361,879	27.0	402,139	29.8	426,879	26.6	449,373	21.6
ultifamily	79,216	4.2	17,012	1.3	56,379	4.2	104,497	6.5	85,522	4.1
onstruction/ and evelopment	130,465	6.9	71,033	5.3	173,405	12.9	285,131	17.7	631,525	30.4
ommercial usiness	171,054	9.0	79,576	5.9	59,831	4.4	82,959	5.2	109,322	5.3
	858,377	45.2	529,500	39.5	691,754	51.3	899,466	56.0	1,275,742	61.4
	1,898,940	100.0%	1,340,111	100.0%	1,347,624	100.0%	1,607,465	100.0%	2,076,381	100.0%
et deferred oan fees and iscounts	(3,219)		(3,576)		(4,062)		(4,767)		(1,915)	
	1,895,721		1,336,535		1,343,562		1,602,698		2,074,466	
llowance for oan losses	(23,908)		(27,561)		(42,689)		(64,177)		(109,472)	
	$ 1,871,813		$ 1,308,974		$ 1,300,873		$ 1,538,521		$ 1,964,994	

(1) December 31, 2013 and 2012 balances comprised of $156.7 million and $94.9 million of owner-occupied loans, respectively, and $320.9 million and $267.0 million of non-owner-occupied loans, respectively.

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The following table shows the composition of the loan portfolio by fixed-rate and adjustable-rate loans and the re-pricing characteristics.

	At December 31,			
	2013		2012	
(in thousands)	Amount	Percent	Amount	Percent
Adjustable-rate loans:				
Single family	$ 508,232	26.8%	$ 294,427	22.0%
Commercial	293,548	15.5	218,181	16.3
Multifamily	69,439	3.7	8,386	0.6
Construction/land development, net[1]	70,028	3.7	40,268	3.0
Commercial business	117,718	6.2	45,384	3.4
Home equity	79,447	4.2	89,615	6.7
Total adjustable-rate loans	1,138,412	59.9	696,261	52.0
Fixed-rate loans:				
Single family	396,681	20.9	379,438	28.3
Commercial	184,094	9.7	143,698	10.7
Multifamily	9,777	0.5	8,626	0.6
Construction/land development, net[1]	60,437	3.2	30,765	2.3
Commercial business	53,336	2.8	34,192	2.6
Home equity	56,203	3.0	47,131	3.5
Total fixed-rate loans	760,528	40.1	643,850	48.0
Total loans held for investment	1,898,940	100.0%	1,340,111	100.0%
Less:				
Deferred loan fees	(3,219)		(3,576)	
Allowance for loan losses	(23,908)		(27,561)	
Loans held for investment, net	$ 1,871,813		$ 1,308,974	

(1) Construction/land development is presented net of the undisbursed portion of the loan commitment.

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The following tables show the contractual maturity of our loan portfolio by loan type.

	At December 31, 2013				Loans due after one year by rate characteristic	
(in thousands)	Within one year	After one year through five years	After five years	Total	Fixed-rate	Adjustable-rate
Consumer:						
Single family	$ 2,117	$ 11,889	$ 890,907	$ 904,913	$ 396,580	$ 506,215
Home equity	1,001	3,231	131,418	135,650	56,107	78,542
Total consumer	3,118	15,120	1,022,325	1,040,563	452,687	584,757
Commercial:						
Commercial real estate	21,265	107,259	349,118	477,642	177,567	278,810
Multifamily		4,255	74,961	79,216	9,777	69,439
Construction/land development	75,019	45,404	10,042	130,465	24,259	31,187
Commercial business	99,374	46,030	25,650	171,054	43,016	28,661
Total commercial	195,658	202,948	459,771	858,377	254,619	408,097
Total loans held for investment	$ 198,776	$ 218,068	$ 1,482,096	$ 1,898,940	$ 707,306	$ 992,854

	At December 31, 2012				Loans due after one year by rate characteristic	
(in thousands)	Within one year	After one year through five years	After five years	Total	Fixed-rate	Adjustable-rate
Consumer:						
Single family	$ 669	$ 10,721	$ 662,475	$ 673,865	$ 378,770	$ 294,426
Home equity	2	1,924	134,820	136,746	47,130	89,614
Total consumer	671	12,645	797,295	810,611	425,900	384,040
Commercial:						
Commercial real estate	37,412	180,613	143,854	361,879	134,870	189,597
Multifamily		5,161	11,851	17,012	8,181	8,831
Construction/land development	46,920	18,136	5,977	71,033	5,636	18,477
Commercial business	44,053	23,690	11,833	79,576	29,760	5,763
Total commercial	128,385	227,600	173,515	529,500	178,447	222,668

Total loans held for investment	$ 129,056	$ 240,245	$ 970,810	$ 1,340,111	$ 604,347	$ 606,708

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The following table presents the loan portfolio by loan type and region as of December 31, 2013.

	Washington						
	Puget Sound						
(in thousands)	King[1]	Snohomish[3]	Pierce[1]	Thurston[3]	Vancouver & Other[2][3]	Spokane[2][3]	Kitsap/Jefferson/ Clallam[1]
Consumer:							
Single family	$ 464,120	$ 89,921	$ 51,267	$ 17,703	$ 41,348	$ 30,883	$ 14,192
Home equity	56,491	15,722	10,406	4,557	8,706	3,957	5,211
	520,611	105,643	61,673	22,260	50,054	34,840	19,403
Commercial:							
Commercial real estate	238,663	54,068	22,007	23,987	624	56,673	6,942
Multifamily	25,342	3,183	16,729	515		12,497	
Construction/land development	60,547	11,825	11,532	5,449	13,185	16,729	269
Commercial business	122,396	1,248	7,702		149	31,973	1,293
	446,948	70,324	57,970	29,951	13,958	117,872	8,504
Total loans	$ 967,559	$ 175,967	$ 119,643	$ 52,211	$ 64,012	$ 152,712	$ 27,907

	Idaho	Oregon					
(in thousands)	Boise[2]	Portland[2][3]	Bend[2][3]	Salem[2]	Hawaii	Other[4]	Total
Consumer:							
Single family	$ 12,001	$ 67,387	$ 19,246	$ 12,656	$ 38,832	$ 45,357	$ 904,913
Home equity	91	13,348	3,257	4,218	8,678	1,008	135,650
	12,092	80,735	22,503	16,874	47,510	46,365	1,040,563
Commercial:							
Commercial real estate	589	50,261	8,009	6,725		9,094	477,642
Multifamily		13,282	7,668				79,216
Construction/land development	2,331	3,813	3,272		1,513		130,465
Commercial business		2,318	47		3	3,925	171,054
	2,920	69,674	18,996	6,725	1,516	13,019	858,377
Total loans	$ 15,012	$ 150,409	$ 41,499	$ 23,599	$ 49,026	$ 59,384	$ 1,898,940

(1) Refers to a specific county.
(2) Refers to a specific city.

(3) Also includes surrounding counties.
(4) Includes California, Alaska and Florida.

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The following table presents the loan portfolio by loan type and region as of December 31, 2012.

	Washington						
	Puget Sound						
(in thousands)	King(1)	Snohomish(3)	Pierce(1)	Thurston(3)	Vancouver & Other(2)(3)	Spokane(2)(3)	Kitsap/Jefferson/ Clallam(1)
Consumer:							
Single family	$ 321,285	$ 81,544	$ 53,788	$ 17,702	$ 32,282	$ 24,443	$ 9,961
Home equity	55,829	17,436	11,739	5,037	8,209	2,783	3,899
	377,114	98,980	65,527	22,739	40,491	27,226	13,860
Commercial:							
Commercial real estate	163,949	83,028	15,391	20,388	645	4,632	13,261
Multifamily	8,274	3,406		542			
Construction/land development	12,777	1,527	32,762	6,923	1,773	5,771	
Commercial business	64,998	4,667	3,642	15	457		1,253
	249,998	92,628	51,795	27,868	2,875	10,403	14,514
Total loans	$ 627,112	$ 191,608	$ 117,322	$ 50,607	$ 43,366	$ 37,629	$ 28,374

	Idaho		Oregon				
(in thousands)	Boise(2)	Portland(2)(3)	Bend(2)(3)	Salem(2)	Hawaii	Other(4)	Total
Consumer:							
Single family	$ 7,873	$ 58,945	$ 17,543	$ 12,968	$ 35,531	$	$ 673,865
Home equity	43	14,100	3,165	4,836	9,595	75	136,746
	7,916	73,045	20,708	17,804	45,126	75	810,611
Commercial:							
Commercial real estate		35,652	11,530	6,925	48	6,430	361,879
Multifamily		1,898	2,892				17,012
Construction/land development		1,179	4,588	3,006	727		71,033
Commercial business		4,191			21	332	79,576
		42,920	19,010	9,931	796	6,762	529,500
Total loans	$ 7,916	$ 115,965	$ 39,718	$ 27,735	$ 45,922	$ 6,837	$ 1,340,111

(1) Refers to a specific county.
(2) Refers to a specific city.
(3) Also includes surrounding counties.
(4) Includes Alaska and Florida.

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The following table presents the loan portfolio by loan type and year of origination.

	December 31, 2013						
(in thousands)	Prior to 2000	2000-2004	2005-2008	2009-2010	2011-2012	2013	Total
Consumer							
Single family	$ 7,236	$ 25,471	$ 195,559	$ 136,240	$ 168,885	$ 371,522	$ 904,913
Home equity	3	17,919	93,304	4,819	2,704	16,901	135,650
	7,239	43,390	288,863	141,059	171,589	388,423	1,040,563
Commercial							
Commercial real estate	361	10,041	205,754	20,263	109,308	131,915	477,642
Multifamily		63	12,199	1,115	5,416	60,423	79,216
Construction/land development			14,155	411	19,789	96,110	130,465
Commercial business	52	892	29,980	14,493	43,110	82,527	171,054
	413	10,996	262,088	36,282	177,623	370,975	858,377
Total loans	$ 7,652	$ 54,386	$ 550,951	$ 177,341	$ 349,212	$ 759,398	$ 1,898,940

The following table presents the loan portfolio by loan type and year of origination.

	December 31, 2012						
(in thousands)	Prior to 2000	2000-2004	2005-2008	2009-2010	2011	2012	Total
Consumer							
Single family	$ 8,255	$ 35,722	$ 243,341	$ 148,622	$ 19,726	$ 218,199	$ 673,865
Home equity	6	21,554	108,970	4,807	1,029	380	136,746
	8,261	57,276	352,311	153,429	20,755	218,579	810,611
Commercial							
Commercial real estate	234	18,679	258,995	5,388	18,822	59,761	361,879
Multifamily			13,606			3,406	17,012
Construction/land development			49,909	648	1,351	19,125	71,033
Commercial business		1,825	37,485	12,143	3,037	25,086	79,576
	234	20,504	359,995	18,179	23,210	107,378	529,500
Total loans	$ 8,495	$ 77,780	$ 712,306	$ 171,608	$ 43,965	$ 325,957	$ 1,340,111

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The following table presents loan origination and loan sale volumes.

(in thousands)	Year Ended December 31, 2013	2012
Loans originated:		
Real estate:		
Single family:		
Originated by HomeStreet	$ 4,176,187	$ 3,969,082
Originated by WMS Series LLC	694,416	932,377
Single family	4,870,603	4,901,459
Multifamily	90,967	115,274
Commercial real estate	129,531	49,982
Construction/land development	255,314	54,187
Total real estate	5,346,415	5,120,902
Commercial business	109,735	35,606
Home equity		
Total loans originated	$ 5,456,150	$ 5,156,508
Loans sold:		
Single family	$ 4,733,473	$ 4,170,840
Multifamily	104,016	118,805
Total loans sold	$ 4,837,489	$ 4,289,645

Other real estate owned was $12.9 million at December 31, 2013, compared to $23.9 million at December 31, 2012, a decrease of $11.0 million, or 46.1%. This decrease was predominantly due to sales of OREO properties, which totaled $18.6 million and loss provision of $603 thousand for 2013, partially offset by additions to the OREO assets of $8.2 million.

Federal Home Loan Bank of Seattle (Seattle FHLB) Stock was $35.3 million at December 31, 2013, compared to $36.4 million at December 31, 2012. Seattle FHLB stock is carried at par value and can only be purchased or redeemed at par value in transactions between the Seattle FHLB and its member institutions. Both cash and stock dividends received on Seattle FHLB stock are reported in earnings.

On November 6, 2009, the Seattle FHLB s regulator defined its capital classification as undercapitalized. Under the Federal Housing Finance Agency (the Finance Agency) regulations, an FHLB that fails to meet any regulatory capital requirement may not declare a dividend or redeem or repurchase capital stock. In September 2012, the Finance Agency reclassified the Seattle FHLB as adequately capitalized but the Seattle FHLB remained subject to a consent order. On November 22, 2013, the Finance Agency issued an amended consent order, which modified and superseded the October 2010 consent order. The amended consent order acknowledges the Seattle FHLB s fulfillment of many of the requirements set forth in the 2010 consent order and improvements in the Seattle FHLB s financial performance, while continuing to impose certain restrictions on its ability to repurchase, redeem, and pay dividends on its capital stock. As such, Finance Agency approval or non-objection will continue to be required for all repurchases, redemptions, and dividend payments on capital stock.

Management periodically evaluates Seattle FHLB stock for other-than-temporary impairment based on its assessment of ultimate recoverability of par value, rather than recognizing temporary declines in value. The determination of whether the decline affects the ultimate recoverability is influenced by criteria such as (1) the significance of the decline in net assets of the Seattle FHLB as compared to the capital stock amount for the FHLB and the length of time this situation has persisted, (2) commitments by the Seattle FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance of the Seattle FHLB, (3) the impact of legislative and regulatory changes on institutions and, accordingly, on the customer base of the Seattle FHLB and (4) the liquidity position of the Seattle FHLB. The Seattle FHLB continues to benefit from a superior credit rating from Standard & Poor s, which allows the Seattle FHLB to secure funding for its activities at attractive rates and terms, further supporting continued access to liquidity. Based on its evaluation, management determined there is no other-than-temporary impairment on the Seattle FHLB stock investment as of December 31, 2013 or December 31, 2012.

Accounts receivable and other assets was $122.9 million at December 31, 2013, compared to $88.2 million at December 31, 2012, an increase of $34.7 million, or 39.3%. This increase was primarily due to a $28.0 million increase in federal income tax receivable at December 31, 2013. The income tax receivable balance was $1.6 million at December 31, 2012.

Deposits

Deposits were $2.21 billion at December 31, 2013, compared to $1.98 billion at December 31, 2012, an increase of $234.0 million, or 11.8%. This increase was primarily attributable to the addition of deposits from the acquisitions of YNB, Fortune Bank and two AmericanWest branches during the fourth quarter of 2013. During 2013, HomeStreet increased the balances of transaction and savings deposits by $491.8 million, or 47.0%, to $1.54 billion at December 31, 2013 from $1.05 billion at December 31, 2012. Partially offsetting the increased transaction and savings deposits was the managed reduction of certificates of deposit balances, which decreased $141.1 million, or 21.5%, to $514.4 million at December 31, 2013 from $655.5 million at December 31, 2012. This improvement in the composition of deposits was partially the result of our successful efforts to attract transaction and savings deposit balances through effective brand marketing.

Deposit balances were as follows for the periods indicated:

	At December 31,	
(in thousands)	2013	2012
Noninterest-bearing accounts checking and savings	$ 164,437	$ 83,563
Interest-bearing transaction and savings deposits:		
NOW accounts	297,965	174,699
Statement savings accounts due on demand	156,181	103,932
Money market accounts due on demand	919,322	683,906
Total interest-bearing transaction and savings deposits	1,373,468	962,537
Total transaction and savings deposits	1,537,905	1,046,100
Certificates of deposit	514,400	655,467
Noninterest-bearing accounts other	158,516	275,268
Total deposits	$ 2,210,821	$ 1,976,835

Borrowings

Seattle FHLB advances were $446.6 million at December 31, 2013, compared with $259.1 million as of December 31, 2012. Seattle FHLB advances may be collateralized by stock in the Seattle FHLB, cash, pledged mortgage-backed securities, real estate-secured commercial loans and unencumbered qualifying mortgage loans. As of December 31, 2013, 2012 and 2011, Seattle FHLB borrowings had weighted average interest rates of 0.43%, 0.60% and 4.67%, respectively. Of the total Seattle FHLB borrowings outstanding as of December 31, 2013, $431.0 million mature prior to December 31, 2014. We had $228.5 million and $55.7 million of additional borrowing capacity with the Seattle FHLB as of December 31, 2013 and December 31, 2012, respectively. Our lending agreement permits the Seattle FHLB to refuse to make advances under that agreement during periods in which an event of default (as defined in that agreement) exists. An event of default occurs when the Seattle FHLB gives notice to the Bank of an intention to take any of a list of permissible actions following the

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occurrence of specified events or conditions affecting the Bank. Among those events is the issuance or entry of any supervisory or consent order pertaining to the Bank. No such condition existed at December 31, 2013.

We may also borrow, on a collateralized basis, from the Federal Reserve Bank of San Francisco (FRBSF or Federal Reserve Bank). At December 31, 2013 and December 31, 2012, we did not have any outstanding borrowings from the FRBSF. Based on the amount of qualifying collateral available, borrowing capacity from the FRBSF was $332.7 million and $124.3 million at December 31, 2013 and December 31, 2012, respectively. The FRBSF is also not contractually bound to offer credit to us, and our access to this source for future borrowings may be discontinued at any time.

Long-term debt was $64.8 million at December 31, 2013 and $61.9 million at December 31, 2012. Most of this balance represents junior subordinated debentures issued in connection with the sale of TruPS by HomeStreet Statutory Trusts, subsidiaries of HomeStreet, Inc. During 2013, as a result of the acquisition of YNB, HomeStreet acquired $3.1 million of additional TruPS. TruPS allow investors to buy subordinated debt through a variable interest entity trust that issues preferred securities to third-party investors and uses the cash received to purchase subordinated debt from the issuer. That debt is the sole asset of the trust and the coupon rate on the debt mirrors the dividend rate on the preferred securities. These securities are nonvoting and are not convertible into capital stock, and the variable interest entity trust is not consolidated in our financial statements.

Shareholders Equity

Quarter and Nine Month Period Ended September 30, 2014

Shareholders equity was $294.6 million at September 30, 2014 compared to $265.9 million at December 31, 2013. This increase included net income of $16.6 million and other comprehensive income of $11.5 million recognized during the nine months ended September 30, 2014, partially offset by dividend payments of $1.6 million during the first quarter of 2014. Other comprehensive income represents unrealized gains in the valuation of our investment securities portfolio at September 30, 2014.

Shareholders equity, on a per share basis, was $19.83 per share at September 30, 2014, compared to $17.97 per share at December 31, 2013.

Fiscal Year Ended December 31, 2013

Shareholders equity was $265.9 million at December 31, 2013 compared to $263.8 million at December 31, 2012. This increase included net income of $23.8 million, partially offset by other comprehensive loss of $21.2 million recognized during 2013 and $4.7 million of dividends paid during 2013 compared to total comprehensive income of $87.2 million recognized during 2012. The comprehensive loss in 2013 represented unrealized losses in the valuation of our investment securities available for sale portfolio at December 31, 2013 as a result of the increase in interest rates experienced beginning in the latter part of the second quarter of 2013.

HomeStreet paid cash dividends to shareholders of $0.11 per share on each of April 22, 2013, August 29, 2013 and November 25, 2013.

Shareholders equity, on a per share basis, was $17.97 per share at December 31, 2013, compared to $18.34 per share at December 31, 2012.

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Return on Equity and Assets

Quarter and Nine Month Period Ended September 30, 2014

The following table presents certain information regarding our returns on average equity and average total assets.

	At or for the Three Months Ended September 30,		At or for the Nine Months Ended September 30,	
	2014	2013	2014	2013
Return on assets(1)	0.61%	0.24%	0.71%	1.25%
Return on equity(2)	6.74%	2.45%	7.81%	11.94%
Equity to assets ratio(3)	9.00%	9.74%	9.10%	10.48%

(1) Net income (annualized) divided by average total assets.
(2) Net earnings (loss) available to common shareholders (annualized) divided by average common shareholders equity.
(3) Average equity divided by average total assets.

Fiscal Year Ended December 31, 2013

The following table presents certain information regarding our returns on average equity and average total assets. Return on equity ratios for the periods shown may not be comparable due to the impact and timing of HomeStreet s initial public offering of common stock completed in February 2012 and changes in the annual effective income tax rate between periods. During 2012, HomeStreet benefited from the full reversal of its deferred tax asset valuation allowances.

	Year Ended December 31,	
(in thousands)	2013	2012
Return on assets(1)	0.88%	3.42%
Return on equity(2)	9.56%	38.86%
Equity to assets ratio(3)	9.16%	8.79%

(1) Net income divided by average total assets.
(2) Net earnings (loss) available to common shareholders divided by average common shareholders equity.
(3) Average equity divided by average total assets.

Business Segments

HomeStreet s business segments are determined based on the products and services provided, as well as the nature of the related business activities, and they reflect the manner in which financial information is currently evaluated by management.

This process is dynamic and is based on management s current view of HomeStreet s operations and is not necessarily comparable with similar information for other financial institutions. We define our business segments by product type and customer segment. If the management structure or the allocation process changes, allocations, transfers and assignments may change.

As a result of a change in the manner in which management evaluates strategic decisions, commencing with the second quarter of 2013, HomeStreet realigned its business segments and organized them into two lines of business: Commercial and Consumer Banking and Mortgage Banking. In conjunction with this realignment, HomeStreet modified its internal reporting to provide discrete financial information to management for these two business segments. The information that follows has been revised to reflect the current business segments.

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We use various management accounting methodologies to assign certain balance sheet and income statement items to the responsible business segments, including:

- A funds transfer pricing (FTP) method, which allocates interest income credits and funding charges between the segments and our treasury division, which then assigns to each such business segment a funding credit for its liabilities, such as deposits, and a charge to fund its assets.
- An allocation of charges for services rendered to the business segments by centralized functions, such as corporate overhead, which are generally based on each segment s consumption patterns.
- An allocation of HomeStreet s consolidated income taxes on the basis of the effective tax rate applied to the segment s pretax income or loss.

Effective January 1, 2012 management updated the FTP methodology it uses for reviewing segment results and managing HomeStreet s business segments. Under the previous FTP methodology, we computed the cost of funds from our current period s financial results and then allocated a portion of that cost of funds to each respective business segment. This approach was based on internal financial results and updated for current period information, thereby providing an updated funding cost applied to certain assets or liabilities originated in prior periods.

The updated methodology is based on external market factors and more closely aligns the expected weighted-average life of the financial asset or liability to external economic data, such as the U.S. Dollar LIBOR/Swap curve, and provides a more consistent basis for determining our cost of funds to be allocated to each business segment. The updated approach is also more consistent with FTP measurement techniques employed by other financial institutions. We have reclassified all prior period amounts to conform to the current methodology and presentation.

In general, the impact of the FTP change resulted in a lower cost of funds as compared with the previous method, as HomeStreet s funding costs have generally been higher than market rates due to the historical structure of the deposit portfolio and wholesale borrowings.

Commercial and Consumer Banking Segment

Commercial and Consumer Banking provides diversified financial products and services to our commercial and consumer customers through bank branches and commercial lending centers, and through ATMs, online, mobile and telephone banking. These products and services include deposit products; residential, consumer and business portfolio loans; investment products; insurance products and cash management services. We originate residential and commercial construction loans, bridge loans and permanent loans for our portfolio primarily on single family residences, and on office, retail, industrial and multifamily property types. We originate commercial real estate loans including multifamily lending through our Fannie Mae DUS business, whereby loans are sold to or securitized by Fannie Mae, while HomeStreet generally retains the servicing rights.

Quarter and Nine Month Period Ended September 30, 2014

As of September 30, 2014, our bank branch network consists of 33 branches in the Pacific Northwest and Hawaii. At September 30, 2014 and December 31, 2013, our transaction and savings deposits totaled $1.77 billion and $1.54 billion, respectively, and our loan portfolio totaled $1.96 billion and $1.87 billion, respectively. This segment is also responsible for the management of HomeStreet s portfolio of investment securities.

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Commercial and Consumer Banking segment results are detailed below.

(in thousands)	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Change	Percent Change	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013	Change	Percent Change
Net interest income	$ 20,163	$ 16,095	$ 4,068	25%	$ 59,799	$ 41,012	$ 18,787	46%
Provision for credit losses		(1,500)	1,500	(100)	(1,500)	900	(2,400)	NM
Noninterest income	3,660	3,478	182	5	13,232[1]	9,590	3,642	38
Noninterest expense	18,930	14,648	4,282	29	58,657	44,412	14,245	32
Income (loss) before income tax expense (benefit)	4,893	6,425	(1,532)	(24)	15,874	5,290	10,584	200
Income tax expense (benefit)	1,359	1,568	(209)	(13)	4,471	752	3,719	495
Net income (loss)	$ 3,534	$ 4,857	$ (1,323)	(27)%	$ 11,403	$ 4,538	$ 6,865	151
Average assets	$ 2,584,404	$ 2,166,332	$ 418,072	19%	$ 2,552,154	$ 2,025,785	$ 526,369	26%
Efficiency ratio[2]	79.46%	74.84%			80.32%	87.77%		
Full-time equivalent employees (ending)	605	504	101	20	605	504	101	20
Net gain on mortgage loan origination and sale activities:								
Multifamily	930	2,113	(1,183)		2,019	4,747	(2,728)	
Other	(101)		(101)	NM	4,780[1]		4,780	NM
	$ 829	$ 2,113	$ (1,284)	$	$ 6,799	$ 4,747	$ 2,052	$
Production volumes:								
	60,699	10,734	49,965	465	95,147	74,643	20,504	27

Multifamily mortgage originations												
Multifamily mortgage loans sold	$	20,409	$	21,998	$	(1,589)	(7)%	$	42,574	$	87,971	$ (45,397)	(52)%

NM = not meaningful

(1) Includes $4.6 million in pre-tax gain during the first six months of 2014 from the sale of loans that were originally held for investment.
(2) Noninterest expense divided by total net revenue (net interest income and noninterest income).

Commercial and Consumer Banking net income was $3.5 million for the third quarter of 2014, a decrease of $1.3 million from net income of $4.9 million for the third quarter of 2013. The decrease in net income in the third quarter of 2014 was primarily the result of a $1.5 million reversal of provision in the third quarter of 2013 compared to no provision recorded in the third quarter of 2014 as well as higher salaries and related costs and other expenses in the third quarter of 2014 related to fourth quarter 2013 acquisitions and organic growth. These were partially offset by a $4.1 million increase in net interest income, resulting from higher average balances of interest-earning assets related to our fourth quarter 2013 acquisitions. For the first nine months of 2014, Commercial and Consumer Banking net income was $11.4 million, improved by $6.9 million, from $4.5 million for the first nine months of 2013. Included in net income for the first nine months of 2014 was a $4.6 million pre-tax gain on single family mortgage origination and sale activities resulting from the sales of loans in the first half of 2014 that were originally designated as held for investment.

In recognition of our improving credit trends and lower charge-offs, we recorded no provision for credit losses in the third quarter of 2014, compared to a reversal of provision of $1.5 million in the third quarter of 2013. For the nine months ended September 30, 2014, we recorded a reversal of provision of $1.5 million, compared to a provision of $900 thousand during the same period in the prior year.

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Commercial and Consumer Banking segment servicing income consisted of the following.

(in thousands)	Three Months Ended September 30, 2014	2013	Dollar Change	Percent Change	Nine Months Ended September 30, 2014	2013	Dollar Change	Percent Change
Servicing income, net:								
Servicing fees and other	$ 1,289	$ 789	$ 500	63%	$ 3,196	$ 2,341	$ 855	37%
Amortization of multifamily MSRs	(425)	(433)	8	(2)	(1,283)	(1,347)	64	(5)
Commercial mortgage servicing income	$ 864	$ 356	$ 508	143%	$ 1,913	$ 994	$ 919	92%

Commercial and Consumer Banking segment loans serviced for others consisted of the following.

(in thousands)	At September 30, 2014	At December 31, 2013
Multifamily	$ 703,197	$ 720,429
Other	86,589	95,673
Total commercial loans serviced for others	$ 789,786	$ 816,102

Commercial and Consumer Banking segment noninterest expense of $18.9 million increased $4.3 million, or 29.2%, from $14.6 million in the third quarter of 2013, primarily due to increased salaries and related costs, reflecting the growth of our commercial real estate and commercial business lending units and the expansion of our branch banking network, including growth through acquisitions.

Fiscal Year Ended December 31, 2013

As of December 31, 2013, our bank branch network consisted of 30 branches in the Pacific Northwest and Hawaii. At December 31, 2013 and 2012, our transaction and savings deposits totaled $1.53 billion and $1.05 billion, respectively, and our loan portfolio totaled $1.87 billion and $1.31 billion, respectively.

Commercial and Consumer Banking segment results are detailed below.

(in thousands)	Year Ended December 31, 2013	2012
Net interest income	$ 59,172	$ 46,626
Provision for loan losses	900	11,500
Noninterest income	8,041	9,786
Noninterest expense	63,767	63,227

Income (loss) before income taxes	2,546	(18,315)
Income tax (benefit) expense	(91)	(3,821)
Net income (loss)	$ 2,637	$ (14,494)
Average assets	$ 2,122,846	$ 1,849,036
Pre-tax pre-provision profit (loss)[1]	3,446	(6,815)
Efficiency ratio[2]	94.87%	112.08%
Full-time equivalent employees (ending)	577	413
Net gain on mortgage loan origination and sale activity:		
Multifamily	$ 5,306	$ 4,872
Other	964	
	$ 6,270	$ 4,872
Commercial and Consumer Banking production volumes:		
Multifamily mortgage originations	$ 90,968	$ 112,074
Multifamily mortgage loans sold	$ 104,016	$ 118,805

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(1) Pre-tax pre-provision profit is total net revenue (net interest income and noninterest income) less noninterest expense. HomeStreet believes that this financial measure is useful in assessing the ability of a lending institution to generate income in excess of its provision for credit losses.
(2) Noninterest expense divided by total net revenue (net interest income and noninterest income).

Commercial and Consumer Banking net income was $2.6 million for the year ended December 31, 2013, an increase of $17.1 million from a net loss of $14.5 million for the year ended December 31, 2012. The increase in net income in 2013 was primarily the result of a $12.5 million increase in net interest income, which reflected improvements in our deposit product and pricing strategy. That strategy included reducing our higher-cost deposits and converting customers with maturing certificates of deposit to transaction and savings deposits. Additionally, improved credit quality of HomeStreet s loan portfolio resulted in a $10.6 million lower provision for loan losses in 2013 compared to 2012.

Commercial and Consumer Banking servicing income consisted of the following.

(in thousands)	Year Ended December 31, 2013	2012
Servicing income, net:		
Servicing fees and other	$ 3,174	$ 3,396
Amortization of multifamily MSRs	(1,803)	(2,014)
Commercial mortgage servicing income	$ 1,371	$ 1,382

Commercial and Consumer Banking loans serviced for others consisted of the following.

(in thousands)	Year Ended December 31, 2013	2012
Commercial		
Multifamily	$ 720,429	$ 727,118
Other	95,673	53,235
Total commercial loans serviced for others	$ 816,102	$ 780,353

Commercial and Consumer Banking noninterest expense of $63.8 million increased $540 thousand, or 0.9%, from $63.2 million in 2012, primarily due to increased salaries and related costs, reflecting the growth of our commercial real estate and commercial business lending units and the expansion of our branch banking network, partially offset by the elimination of certain positions in commercial lending and administration in response to our acquisitions and which was intended to improve efficiency and performance.

Mortgage Banking Segment

Mortgage Banking originates and purchases single family residential mortgage loans for sale to investors in the secondary market. We purchase loans from WMS Series LLC through a correspondent arrangement between HomeStreet Bank and that company. The majority of our mortgage loans are sold to or securitized by Fannie Mae, Freddie Mac or Ginnie Mae, while we retain the right to service these loans. A small percentage of our loans are brokered or sold on a servicing-released basis to correspondent lenders. We manage the loan funding and the interest rate risk associated with the secondary market loan sales and the retained servicing rights within this business segment.

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Quarter and Nine Month Period Ended September 30, 2014

Mortgage Banking segment results are detailed below.

(in thousands)	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Change	Percent Change	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013	Change	Percent Change
Net interest income	$ 5,145	$ 4,317	$ 828	19%	$ 11,368	$ 12,050	$ (682)	(6)%
Noninterest income	42,153	34,696	7,457	21	120,938	145,083	(24,145)	(17)
Noninterest expense	45,228	43,468	1,760	4	124,563	126,215	(1,652)	(1)
Income before income tax expense	2,070	(4,455)	6,525	NM	7,743	30,918	(23,175)	(75)
Income tax expense	629	(1,260)	1,889	NM	2,508	10,786	(8,278)	(77)
Net income	$ 1,441	$ (3,195)	$ 4,636	NM	$ 5,235	$ 20,132	$ (14,897)	(74)%
Average assets	$ 697,601	$ 619,962	$ 77,639	13%	$ 571,063	$ 602,443	$ (31,380)	(5)%
Efficiency ratio(1)	95.62%	111.42%			94.15%	80.32%		
Full-time equivalent employees (ending)	993	922	71	8	993	922	71	8
Production volumes for sale to the secondary market:								
Single family mortgage closed loan volume(2)(3)	$ 1,294,895	$ 1,187,061	$ 107,834	9	$ 3,069,882	$ 3,686,503	$ (616,621)	(17)
Single family mortgage interest rate lock commitments(2)	1,167,677	786,147	381,530	49	3,172,650	3,245,259	(72,609)	(2)
Single family mortgage loans sold(2)	$ 1,179,464	$ 1,326,888	$ (147,424)	(11)%	$ 2,705,719	$ 3,916,918	$ (1,211,199)	(31)%

(1) Noninterest expense divided by total net revenue (net interest income and noninterest income).

(2) Includes loans originated by WMS Series LLC and purchased by HomeStreet Bank.
(3) Represents single family mortgage production volume designated for sale to the secondary market during each respective period.

Mortgage Banking net income was $1.4 million for the third quarter of 2014, compared to a net loss of $3.2 million for the third quarter of 2013. For the first nine months of 2014, Mortgage Banking net income was $5.2 million, a decrease of $14.9 million, or 74.0%, from net income of $20.1 million for the first nine months of 2013. The increase in Mortgage Banking net income for the third quarter of 2014 primarily reflected increased interest rate lock commitment volume from the expansion of our mortgage production offices and a 26.8% increase in mortgage production personnel year over year.

Mortgage Banking net gain on sale to the secondary market is detailed in the following table.

(in thousands)	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
Net gain on mortgage loan origination and sale activities:[1]				
Single family:				
Servicing value and secondary market gains[2]	$ 29,866	$ 23,076	$ 79,658	$ 110,760
Loan origination and funding fees	6,947	8,302	18,489	24,363
Total mortgage banking net gain on mortgage loan origination and sale activities[1]	$ 36,813	$ 31,378	$ 98,147	$ 135,123

(1) Excludes inter-segment activities.
(2) Comprised of gains and losses on interest rate lock commitments (which considers the value of servicing), single family loans held for sale, forward sale commitments used to economically hedge secondary market activities, and the estimated fair value of the repurchase or indemnity obligation recognized on new loan sales.

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Net gain on mortgage loan origination and sale activities was $36.8 million for the third quarter of 2014, an increase of $5.4 million, or 17.3%, from $31.4 million in the third quarter of 2013. This increase is primarily the result of a 48.5% increase in interest rate lock commitments, which was mainly driven by the expansion of our mortgage production offices. Since September 2013, we have increased our home lending capacity and expanded our lending footprint by adding 19 home loan centers, including 12 in California, to bring our total home loan centers to 55.

Mortgage Banking servicing income consisted of the following.

(in thousands)	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Dollar Change	Percent Change	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013	Dollar Change	Percent Change
Servicing income, net:								
Servicing fees and other	$ 8,061	$ 8,145	$ (84)	(1)%	$ 26,115	$ 22,156	$ 3,959	18%
Changes in fair value of MSRs due to modeled amortization(1)	(6,212)	(5,665)	(547)	10	(19,289)	(18,305)	(984)	5
	1,849	2,480	(631)	(25)	6,826	3,851	2,975	77
Risk management:								
Changes in fair value of MSRs due to changes in model inputs and/or assumptions(2)	899	(2,456)	$ 3,355	(137)	(7,836)(3)	16,812	$ (24,648)	(147)
Net gain from derivatives economically hedging MSRs	2,543	3,631	(1,088)	(30)	23,381	(12,392)	35,773	(289)
	3,442	1,175	2,267	193	15,545	4,420	11,125	252
Mortgage Banking servicing income	$ 5,291	$ 3,655	$ 1,636	45%	$ 22,371	$ 8,271	$ 14,100	170%

(1) Represents changes due to collection/realization of expected cash flows and curtailments.
(2) Principally reflects changes in model assumptions, including prepayment speed assumptions, which are primarily affected by changes in mortgage interest rates.
(3) Includes pre-tax income of $4.7 million, net of brokerage fees and prepayment reserves, resulting from the second quarter 2014 sale of single family MSRs.

Single family mortgage servicing income of $5.3 million in the third quarter of 2014 increased $1.6 million, or 45%, from $3.7 million in the third quarter of 2013, primarily due to improved risk management results. Risk management results represent changes in the fair value of single family MSRs due to changes in model inputs and assumptions net of the gain/(loss) from derivatives economically hedging MSRs.

For the first nine months of 2014, single family mortgage servicing income of $22.4 million increased $14.1 million, or 170.5%, from $8.3 million for the first nine months of 2013, primarily as a result of improved risk management results and servicing fees collected. Included in risk management results for the first nine months of 2014 is $4.7 million of pre-tax income recognized from the second quarter 2014 sale of single family MSRs.

Single family mortgage servicing fees collected in the third quarter of 2014 decreased $84 thousand, or 1.0%, from the third quarter of 2013. As a result of the June 30, 2014 sale of single family MSRs, the portfolio of single family loans serviced for others decreased to $10.59 billion at September 30, 2014 compared to $11.29 billion at September 30, 2013. Mortgage servicing fees collected in future periods will be negatively impacted in the short term because the balance of the loans serviced for others portfolio was reduced as a consequence of this sale.

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Single family loans serviced for others consisted of the following.

(in thousands)	At September 30, 2014	At December 31, 2013
U.S. government and agency	$ 10,007,872	$ 11,467,853
Other	585,393	327,768
Total single family loans serviced for others	$ 10,593,265	$ 11,795,621

Mortgage Banking noninterest expense of $45.2 million in the third quarter of 2014 increased $1.8 million, or 4.0%, from $43.5 million in the third quarter of 2013, primarily due to higher commission and incentive expense, as closed loan volumes increased 9.1% from the third quarter of 2013, and higher general and administrative expenses resulting from our expansion into new markets.

Fiscal Year Ended December 31, 2013

(in thousands)	Year Ended December 31, 2013	2012
Net interest income	$ 15,272	$ 14,117
Noninterest income	182,704	228,234
Noninterest expense	165,728	120,364
Income before income taxes	32,248	121,987
Income tax expense	11,076	25,367
Net income	$ 21,172	$ 96,620
Average assets	$ 595,368	$ 554,824
Efficiency ratio(1)	83.71%	49.67%
Full-time equivalent employees (ending)	925	686
Production volumes for sale to the secondary market:		
Single family mortgage closed loan volume(2)(3)	$ 4,459,649	$ 4,668,167
Single family mortgage interest rate lock commitments(2)	3,907,274	4,786,667
Single family mortgage loans sold(2)	4,733,473	4,170,840

(1) Noninterest expense divided by total net revenue (net interest income and noninterest income).
(2) Includes loans originated by WMS Services LLC (WMS) and purchased by HomeStreet Bank.
(3) Represents single family mortgage production volume designated for sale to the secondary market during each respective period.

Mortgage Banking net income was $21.2 million for the year ended December 31, 2013, a decrease of $75.4 million, or 78.1%, from net income of $96.6 million for the year ended December 31, 2012. The decrease in Mortgage Banking net income for 2013 was driven primarily by higher mortgage interest rates that led to a sharp decrease in interest rate lock commitment volume. Since a substantial amount of the gain on loan origination and sale activities is recognized at the time of interest rate lock, higher mortgage interest rates in 2013 created an imbalance between the volume of interest rate lock commitments and closed loans. In periods where the volume of closed loans significantly exceeds the volume of interest rate lock commitments, noninterest expense will be higher relative to noninterest income because variable costs, notably commissions and incentives, are recognized at the time of closing the loan.

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Mortgage Banking net gain on sale to the secondary market is detailed in the following table.

(in thousands)	Year Ended December 31, 2013	2012
Net gain on mortgage loan origination and sale activities:[1]		
Single family:		
Servicing value and secondary market gains[2]	$ 128,391	$ 178,624
Provision for repurchase losses[3]		(2,969)
Net gain from secondary market activities	128,391	175,655
Loan origination and funding fees	30,051	30,037
Total mortgage banking net gain on mortgage loan origination and sale activities[1]	$ 158,442	$ 205,692

(1) Excludes inter-segment activities.
(2) Comprised of gains and losses on interest rate lock commitments (which considers the value of servicing), single family loans held for sale, forward sale commitments used to economically hedge secondary market activities, and the estimated fair value of the repurchase or indemnity obligation recognized on new loan sales.
(3) Represents changes in estimated probable future repurchase losses on previously sold loans.

Net gain on mortgage loan origination and sale activities was $158.4 million for the year ended December 31, 2013, a decrease of $45.9 million, or 21.8%, from $205.7 million for the year ended December 31, 2012. This decrease is primarily the result of a 18.4% decrease in interest rate lock commitments, which was mainly driven by an increase in mortgage interest rates which began in the latter part of the second quarter of 2013, which led to a decrease in refinance mortgage volume, and a shift to a purchase mortgage-dominated market.

Mortgage Banking servicing income consisted of the following.

(in thousands)	Year Ended December 31, 2013	2012
Servicing income, net:		
Servicing fees and other	$ 30,999	$ 24,437
Changes in fair value of MSRs due to modeled amortization[1]	25,668	(20,662)
	56,667	3,775
Risk management:		
Changes in fair value of MSRs due to changes in model inputs and/or assumptions[2]	(20,533)	(11,018)
Net gain from derivatives economically hedging MSRs	(20,432)	21,982
	(40,965)	10,964
Mortgage Banking servicing income	$ 15,702	$ 14,739

(1) Represents changes due to collection/realization of expected cash flows and curtailments.
(2) Principally reflects changes in model assumptions, including prepayment speed assumptions, which are primarily affected by changes in mortgage interest rates.

Single family mortgage servicing income of $15.7 million in the year ended December 31, 2013 increased by $1.0 million from $14.7 million in the year ended December 31, 2012. This increase was primarily due to increased servicing fees collected on HomeStreet s single family mortgages, partially offset by mortgage servicing rights (MSR) risk management results. Risk management results represent changes in the fair value of single family MSRs due to changes in model inputs and assumptions net of the gain/(loss) from derivatives economically hedging MSRs.

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Single family mortgage servicing fees collected in the year ended December 31, 2013 increased $6.6 million, or 26.9%, from the year ended December 31, 2012 primarily as a result of growth in the portfolio of single family loans serviced for others, which increased to $11.80 billion at December 31, 2013 compared to $8.87 billion at December 31, 2012.

Single family loans serviced for others consisted of the following.

	At December 31,	
(in thousands)	2013	2012
Single family		
U.S. government and agency	$ 11,467,853	$ 8,508,458
Other	327,768	362,230
Total single family loans serviced for others	$ 11,795,621	$ 8,870,688

Mortgage Banking noninterest expense of $165.7 million for the year ended December 31, 2013 increased $45.4 million, or 37.7%, from $120.4 million in 2012. This increase was primarily attributable to increased salaries and related costs due to our continued growth in loan production personnel and our expansion into new markets.

Off-Balance Sheet Arrangements

In the normal course of business, we are a party to financial instruments with off-balance sheet risk. These financial instruments (which include commitments to originate loans and commitments to purchase loans) include potential credit risk in excess of the amount recognized in the accompanying consolidated financial statements. These transactions are designed to (1) meet the financial needs of our customers, (2) manage our credit, market or liquidity risks, (3) diversify our funding sources and/or (4) optimize capital.

For more information on off-balance sheet arrangements, including derivative counterparty credit risk, see the *Commitments, Guarantees and Contingencies* discussions within HomeStreet s Management s Discussion and Analysis contained in this joint proxy statement.

Commitments, Guarantees and Contingencies

We may incur liabilities under certain contractual agreements contingent upon the occurrence of certain events. Our known contingent liabilities include:

Unfunded loan commitments. We make certain unfunded loan commitments as part of our lending activities that have not been recognized in HomeStreet s financial statements. These include commitments to extend credit made as part of our mortgage lending activities and interest rate lock commitments on loans we intend to hold in our loans held for investment portfolio. The aggregate amount of these unrecognized unfunded loan commitments existing at December 31, 2013 and December 31, 2012 was $18.4 million and $76.8 million, respectively.

Credit agreements. We extend secured and unsecured open-end loans to meet the financing needs of our customers. These commitments, which primarily related to unused home equity and commercial real estate lines of credit and business banking funding lines, totaled $154.0 million and $91.1 million at December 31, 2013 and December 31, 2012. Undistributed construction loan proceeds, where HomeStreet has an obligation to advance funds for construction progress payments, was $168.5 million and $34.5 million at December 31, 2013 and December 31, 2012, respectively. The total amounts of unused commitments do not necessarily represent future credit exposure or cash requirements in that commitments may expire without being drawn upon.

Interest rate lock commitments. HomeStreet writes options in the form of interest rate lock commitments on single family mortgage loans that are exercisable at the option of the borrower. We are exposed to market risk on interest rate lock commitments. The fair value of interest rate lock commitments existing at December 31, 2013 and December 31, 2012, was $6.0 million and $22.5 million, respectively. We mitigate the risk of future changes in the fair value of interest rate lock commitments primarily through the use of forward sale commitments.

Credit loss sharing. We originate, sell and service multifamily loans through the Fannie Mae DUS program. Multifamily loans are sold to Fannie Mae subject to a loss sharing arrangement. HomeStreet Capital services the loans for Fannie Mae and shares in the risk of loss with Fannie Mae under the terms of the DUS contracts. Under the DUS program, the DUS lender is contractually responsible for the first 5% of losses and then shares equally in the remainder of losses with Fannie Mae with a maximum lender loss of 20% of the original principal balance of each DUS loan. The total principal balance of loans outstanding under the DUS program as of December 31, 2013 and December 31, 2012 was $720.4 million and $727.1 million, respectively, and our loss reserve was $2.0 million and $3.3 million as of December 31, 2013 and December 31, 2012, respectively.

Mortgage repurchase liability. In our single family lending business, we sell residential mortgage loans to GSEs that include the mortgage loans in GSE-guaranteed mortgage securitizations. In addition, HomeStreet pools FHA-insured and Department of Veterans Affairs (VA)-guaranteed mortgage loans that are used to back Ginnie Mae-guaranteed securities. We have made representations and warranties that the loans sold meet certain requirements. We may be required to repurchase mortgage loans or indemnify loan purchasers due to defects in the origination process of the loan, such as documentation errors, underwriting errors and judgments, early payment defaults and fraud. These obligations expose us to any credit loss on the repurchased mortgage loans after accounting for any mortgage insurance that it may receive. Generally, the maximum amount of future payments we would be required to make for breaches of these representations and warranties would be equal to the unpaid principal balance of such loans that are deemed to have defects that were sold to purchasers plus, in certain circumstances, accrued and unpaid interest on such loans and certain expenses.

We do not typically receive repurchase requests from Ginnie Mae, FHA or VA. As an originator of FHA insured or VA guaranteed loans, we are responsible for obtaining the insurance with FHA or the guarantee with the VA. If loans are later found not to meet the requirements of FHA or VA, through required internal quality control reviews or through agency audits, we may be required to indemnify FHA or VA against loss. The loans remain in Ginnie Mae pools unless and until they qualify for voluntary repurchase by HomeStreet. In general, once a FHA or VA loan becomes 90 days past due, we repurchase the FHA or VA loan to minimize the cost of interest advances on the loan. If the loan is cured through borrower efforts or through loss mitigation activities, the loan may be resold into a Ginnie Mae pool. HomeStreet s liability for mortgage loan repurchase losses incorporates probable losses associated with such indemnification.

As of December 31, 2013 and December 31, 2012, the total principal balance of loans sold that were subject to the terms and conditions of these representations and warranties totaled $11.89 billion and $8.92 billion. We recorded a mortgage repurchase liability of $1.3 million and $2.0 million at December 31, 2013 and 2012, respectively, to reflect management s estimate of losses for loans for which we could have a repurchase obligation. Actual repurchase losses of $2.5 million and $2.8 million were incurred for the years ended December 31, 2013 and 2012, respectively.

Leases. HomeStreet is obligated under non-cancelable leases for office space. The office leases also contain renewal and space options. Rental expense under non-cancelable operating leases totaled $11.4 million and $7.1 million for the years ended December 31, 2013, and 2012, respectively.

Derivative Counterparty Credit Risk

Derivative financial instruments expose us to credit risk in the event of nonperformance by counterparties to such agreements. This risk consists primarily of the termination value of agreements where we are in a favorable position. Credit risk related to derivative financial instruments is considered within the fair value measurement of the instrument. We manage the credit risk associated with our various derivative agreements through counterparty credit review, counterparty exposure limits and monitoring procedures. From time to time, we may provide or obtain collateral from certain counterparties for amounts in excess of exposure limits as outlined by the counterparty credit policies of the parties. We have entered into agreements with derivative counterparties that include netting arrangements whereby the counterparties are entitled to settle their positions on a net basis. At December 31, 2013 and 2012, our net exposure to the credit risk of derivative counterparties was $10.2 million and $22.7 million.

Contractual Obligations

The following table summarizes our significant fixed and determinable contractual obligations, within the categories described below, by payment date or contractual maturity as of December 31, 2013. The payment amounts for financial instruments shown below represent principal amounts contractually due to the recipient and do not include any unamortized premiums or discounts, or other similar carrying value adjustments.

(in thousands)	Within one year	After one but within three years	After three but within five	More than five years	Total
Deposits(1)	$ 2,095,020	$ 96,571	$ 19,230	$	$ 2,210,821
Seattle FHLB advances	431,000			15,590	446,590
Trust preferred securities(2)				64,950	64,950
Interest(3)	5,963	9,521	5,837	24,265	45,586
Operating leases	11,856	23,433	14,421	4,115	53,825
Purchase obligations(4)	4,147	5,578			9,725
Total	$ 2,547,986	$ 135,103	$ 39,488	$ 108,920	$ 2,831,497

(1) Deposits with indeterminate maturities, such as demand, savings and money market accounts, are reflected as obligations due less than one year.
(2) Trust preferred securities is included in long-term debt on the consolidated statements of financial condition.
(3) Represents the future interest obligations related to interest-bearing time deposits and long-term debt in the normal course of business. These interest obligations assume no early debt redemption. We estimated variable interest rate payments using December 31, 2013 rates, which we held constant until maturity.
(4) Represents agreements to purchase goods or services.

Enterprise Risk Management

All financial institutions manage and control a variety of business and financial risks that can significantly affect their financial performance. Among these risks are credit risk; market risk, which includes interest rate risk and price risk; liquidity risk; and operational risk. We are also subject to risks associated with compliance/legal, strategic and reputational matters.

The HomeStreet s Board of Directors (the Board) and executive management have overall and ultimate responsibility for management of these risks. The Board, its committees and senior managers oversee the management of various risks. We review and assess these risks on an enterprise-wide basis periodically and as part of the annual strategic planning process. We use internal audits, quality control and loan review functions to assess the strength of and adherence to risk management policies, internal controls and regulatory requirements. Similarly, external reviews, examinations and audits are conducted by regulators and others. In addition, our compliance, appraisal, corporate security and information security personnel provide additional risk management services in their areas of expertise.

The Board and its committees (both for HomeStreet and its subsidiaries) work closely with senior management in overseeing risk. Management recommends the appropriate level of risk in our strategic and business plans and in our board-approved credit and operating policies and has responsibility for measuring, managing, controlling and reporting on risks. The Board and its committees oversee the monitoring and controlling of significant risk exposures, including the policies governing risk management. The Board authorizes its committees to take any action on its behalf as described in their respective charter or as otherwise delegated by the Board, except as otherwise specifically reserved by law, regulation, other committees charters or HomeStreet s charter documents for action solely by the full board or another board committee. These committees include:

Audit Committee. The Audit Committee oversees the policies and management activities relating to our financial reporting, internal and external audit, regulatory, legal and compliance risks.

Finance Committee. The Finance Committee oversees the consolidated companies activities related to balance sheet management, major financial risks including market, interest rate, liquidity and funding risks and counterparty risk management, including trading limits.

Credit Committee. The Credit Committee oversees the annual Loan Review Plan, lending policies, credit performance and trends, the allowance for credit loss policy and loan loss reserves, large borrower exposure and concentrations, and approval of broker/dealer relationships.

Human Resources and Corporate Governance Committee. The Human Resources and Corporate Governance Committee (the HRCG) of HomeStreet, Inc. reviews all matters concerning our human resources, compensation, benefits, and corporate governance. HRCG s policy objectives are to ensure that HomeStreet and its operating subsidiaries meet their corporate objectives of attracting and retaining a well-qualified workforce, to oversee our human resource strategies and policies and to ensure processes are in place to assure compliance with employment laws and regulations.

Enterprise Risk Management Committee. The Enterprise Risk Management Committee (the ERMC) oversees HomeStreet s enterprise-wide risk management framework, including evaluating management s identification and assessment of the significant risks and the related infrastructure to address such risks and monitors HomeStreet s compliance with its risk appetite and risk limit structures and effective remediation of non-compliance on an ongoing, enterprise-wide, and individual entity basis. The ERMC does not duplicate the risk oversight of the Board s other committees, but rather helps ensure end-to-end understanding and oversight of all risk issues in one Board committee and enhances the Board s and management s understanding of HomeStreet s aggregate enterprise-wide risk appetite.

The following is a discussion of our risk management practices. The risks related to credit, liquidity, interest rate and price warrant in-depth discussion due to the significance of these risks and the impact they may have on our business.

Credit Risk Management

Credit risk is defined as the risk to current or anticipated earnings or capital arising from an obligor s failure to meet the terms of any contract with HomeStreet, including those in the lending, securities and derivative portfolios, or otherwise perform as agreed. Factors relating to the degree of credit risk include the size of the asset or transaction, the contractual terms of the related documents, the credit characteristics of the borrower, the channel through which assets are acquired, the features of loan products or derivatives, the existence and strength of guarantor support, the availability, quality and adequacy of any underlying collateral and the economic environment after the loan is originated or the asset is acquired. Our overall portfolio credit risk is also impacted by asset concentrations within the portfolio.

Our credit risk management process is primarily governed centrally. Our overall credit process includes comprehensive credit policies, judgmental or statistical credit underwriting, frequent and detailed risk measurement and modeling and loan review, quality control and audit processes. In addition, we have an independent loan review function that reports directly to the Credit Committee of the Board, and internal auditors and regulatory examiners review and perform detailed tests of our credit underwriting, loan administration and allowance processes.

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The Chief Credit Officer s primary responsibilities include directing the activities of the credit risk management function as it relates to the loan portfolio, overseeing loan portfolio performance and ensuring compliance with regulatory requirements and HomeStreet s established credit policies, standards and limits, determining the reasonableness of our allowance for loan losses, reviewing and approving large credit exposures and delegating credit approval authorities. Senior credit administrators who oversee the lines of business have both transaction approval authority and governance authority for the approval of procedures within established policies, standards and limits. The Chief Credit Officer reports directly to the Chief Executive Officer.

The Loan Committee provides direction and oversight within our risk management framework. The committee seeks to ensure effective portfolio risk analysis and policy review and to support sound implementation of defined business and risk strategies. Additionally, the Loan Committee periodically approves credits larger than the Chief Credit Officer s or Chief Executive Officer s individual approval authorities allow. The members of the Loan Committee are the Chief Executive Officer, Chief Credit Officer and the Commercial Banking Director.

The loan review department s primary responsibility includes the review of our loan portfolios to provide an independent assessment of credit quality, portfolio oversight and credit management, including accuracy of loan grading. Loan review also conducts targeted credit-related reviews and credit process reviews at the request of the Board and management and reviews a sample of newly originated loans for compliance with closing conditions and accuracy of loan grades. Loan review reports directly to the Credit Committee and administratively to the Compliance and Regulatory Affairs Director.

Credit limits for capital markets counterparties, including derivative counterparties, are defined in HomeStreet s Counterparty Risk policy, which is reviewed annually by the Bank Loan Committee, with final approval by the Board Credit Committee. The treasury function is responsible for directing the activities related to securities and derivative portfolios, including overseeing derivative portfolio performance and ensuring compliance with established credit policies, standards and limits. The Chief Investment Officer and Treasurer reports directly to the Chief Executive Officer.

Appraisal Policy

An integral part of our credit risk management process is the valuation of the collateral supporting the loan portfolio, which is primarily comprised of loans secured by real estate. We maintain a Board-approved appraisal policy for real estate appraisals that conforms to the Uniform Standards of Professional Appraisal Practice (USPAP) and FDIC regulatory requirements. Our Chief Appraiser, who is independent of the business unit and credit administration departments, is responsible for maintaining the appraisal policy and recommending changes to the policy subject to Loan Committee and Credit Committee approval.

Real Estate

Our appraisal policy requires that market value appraisals or evaluations be prepared at loan origination, subsequent loan extensions and for loan monitoring purposes. Our appraisals are prepared by independent third-party appraisers and our staff appraisers. Evaluations are prepared by independent qualified third-party providers. We use state certified and licensed appraisers with appropriate expertise as it relates to the subject property type and location. All appraisals contain as is values based upon the definition of market value as set forth in the FDIC appraisal regulations. For commercial properties we may also obtain upon completion and upon stabilization values as appropriate to the loan type and status. The appraisal standard for the non-tract development properties (four units or less) is retail value of individual units. For tract development properties with five or more units, the appraisal standard is the bulk value of the tract as a whole.

We review all appraisals and evaluations prior to approval of a loan transaction. Commercial real estate appraisals and evaluations are reviewed by our in-house appraisal staff. Non-complex single family appraisal reviews are conducted by our or appraisal department staff. Complex single family appraisals or appraisals with unusual characteristics are referred to our state-licensed staff appraisal for review.

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For loan monitoring and problem loan management purposes our appraisal practices are as follows:

- We generally do not perform valuation monitoring for pass-graded credits due to minimal credit risk.

- For loans graded special mention, an appraisal is performed at the time of loan downgrade, and an appraisal or evaluation is performed at least every two years thereafter, depending upon property complexity, market area, market conditions, intended use and other considerations.

- For loans graded substandard or doubtful and for all OREO properties, we require an independent third-party appraisal at the time of downgrade or transfer to OREO and at least every twelve months thereafter until disposition or loan upgrade. For loans where foreclosure is probable, an appraisal or evaluation is prepared at the intervening six-month period prior to foreclosure.

- In addition, if we determine that market conditions, changes to the property, changes in the intended use of the property or other factors indicate an appraisal is no longer reliable, we will also obtain an updated appraisal or evaluation and assess whether a change in collateral value requires an additional adjustment to carrying value.

Other

Our appraisal requirements for loans not secured by real estate, such as business loans secured by equipment, include valuation methods ranging from evidence of sales price or verification with a recognized guide for new equipment to a valuation opinion by a professional appraiser for multiple pieces of used equipment.

Loan modifications

We have modified loans for various reasons for borrowers not experiencing financial difficulties. For example, we have extended maturities on certain loans to allow additional time for sales or leasing of residential and commercial real estate construction or rehabilitation projects. Other short-term extensions have been granted to allow time for receipt of appraisals and other financial reporting information to facilitate underwriting of loan extensions and renewals.

When there is a well-conceived and prudent workout plan that supports the ultimate collection of principal and interest, we may enter into a loan modification to help maximize the likelihood of success for a given workout strategy. In each case we also assess whether it is in the best interests of HomeStreet to foreclose or modify the terms. We have made concessions such as interest-only payment terms, interest rate reductions, principal and interest forgiveness and payment restructures. Additionally, we have provided for concessions to construction and land development borrowers that focused primarily on forgiveness of principal in conjunction with settlement activities so as to allow us to acquire control of the real estate collateral. For single family mortgage borrowers, we have generally provided for granting interest rate reductions for periods of three years or less to reduce payments and provide the borrower time to resolve their financial difficulties. In each case, we carefully analyze the borrower s current financial condition to assure that they can make the modified payment.

Loan Underwriting Standards

Our underwriting standards for single family and home equity loans require evaluating and understanding a borrower s credit, collateral and ability to repay the loan. Credit is determined based on how well a borrower manages their current and prior debts, documented by a credit report that provides credit scores and the borrower s current and past information about their credit history. Collateral is based on the type and use of property, occupancy and market value, largely determined by property appraisals. A borrower s ability to repay the loan is based on several factors, including employment, income, current debt, assets and level of equity in the property. We also consider loan-to-property value and debt-to-income ratios, loan amount and lien position in assessing whether to originate a loan. Single family and home equity borrowers are particularly susceptible to downturns in economic trends that negatively affect housing prices and demand and levels of unemployment.

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For commercial, multifamily and construction loans, we consider the same factors with regard to the borrower and the guarantors. In addition, we evaluate liquidity, net worth, leverage, other outstanding indebtedness of the borrower, an analysis of cash expected to flow through the borrower (including the outflow to other lenders) and prior experience with the borrower. We use this information to assess financial capacity, profitability and experience. Ultimate repayment of these loans is sensitive to interest rate changes, general economic conditions, liquidity and availability of long-term financing.

Additional considerations for commercial permanent loans secured by real estate:

Our underwriting standards for commercial permanent loans generally require that the loan-to-value ratio for these loans not exceed 75% of appraised value or discounted cash flow value, as appropriate, and that commercial properties attain debt coverage ratios (net operating income divided by annual debt servicing) of 1.25 or better.

Our underwriting standards for multifamily residential permanent loans generally require that the loan-to-value ratio for these loans not exceed 80% of appraised value, cost, or discounted cash flow value, as appropriate, and that multifamily residential properties attain debt coverage ratios of 1.2 or better. However, underwriting standards can be influenced by competition and other factors. We endeavor to maintain the highest practical underwriting standards while balancing the need to remain competitive in our lending practices.

Additional considerations for commercial construction loans secured by real estate:

We originate a variety of real estate construction loans. Underwriting guidelines for these loans vary by loan type but include loan-to-value limits, term limits, loan advance limits and pre-leasing requirements, as applicable.

Our underwriting guidelines for commercial real estate construction loans generally require that the loan-to-value ratio not exceed 75% and stabilized debt coverage ratios of 1.25 or better.

Our underwriting guidelines for multifamily residential construction loans generally require that the loan-to-value ratio not exceed 80% and stabilized debt coverage ratios of 1.2 or better.

Our underwriting guidelines for single family residential construction loans to builders generally require that the loan-to-value ratio not exceed 85%.

As noted above, underwriting standards can be influenced by competition and other factors. However, we endeavor to maintain the highest practical underwriting standards while balancing the need to remain competitive in our lending practices.

Asset Quality and Nonperforming Assets

The primary markets in which we do business were impacted by the deterioration in the U.S. housing market that began in 2007. Faced with unfavorable market conditions, more borrowers with residential and commercial loans defaulted on their loans, thereby contributing to an increase in delinquency rates, which peaked in our loan portfolio during 2009 and continued to be higher than historical averages through 2012. We generally stopped our origination of new loans held for investment in 2008 to enable us to focus on problem loan resolution and improve overall asset quality. Beginning in 2009, we tightened our lending practices and underwriting standards as we shifted to primarily originating single family loans that conform to GSE parameters and Fannie Mae DUS multifamily loans, substantially all of which were designated for sale. With the successful completion of our initial public offering and the termination of the order to Cease and Desist issued to HomeStreet Bank by the FDIC and WDFI dated May 8, 2009, which had placed certain restrictions on HomeStreet Bank s operations, we restarted all of our traditional lines of lending in 2012 and again began to grow our loans held for investment portfolio.

Quarter and Nine Month Period Ended September 30, 2014

Nonperforming assets (NPAs) were $30.4 million, or 0.87% of total assets at September 30, 2014, compared to $38.6 million, or 1.26% of total assets at December 31, 2013. Nonaccrual loans of $19.9 million, or 1.00% of total loans at September 30, 2014, decreased $5.8 million, or 22.6%, from $25.7 million, or 1.36% of total loans at December 31, 2013. OREO balances of $10.5 million at September 30, 2014 decreased $2.4 million, or 18.8%, from $12.9 million at December 31, 2013. Net charge-offs during the three and nine months ended September 30, 2014 were $57 thousand and $478 thousand, respectively, compared with $1.5 million and $3.8 million during the three and nine months ended September 30, 2013, respectively.

At September 30, 2014, our loans held for investment portfolio, excluding the allowance for loan losses, was $1.99 billion, an increase of $90.9 million from December 31, 2013. The allowance for loan losses decreased to $21.8 million, or 1.10% of loans held for investment, compared to $23.9 million, or 1.26% of loans held for investment at December 31, 2013.

In recognition of our improving credit trends and lower charge-offs, we recorded no provision for credit losses in the third quarter of 2014, compared to a reversal of provision of $1.5 million in the third quarter of 2013. For the nine months ended September 30, 2014, we recorded a reversal of provision of $1.5 million, compared to a provision of $900 thousand during the nine months ended September 30, 2013.

The following tables present the recorded investment, unpaid principal balance and related allowance for impaired loans, broken down by those with and those without a specific reserve.

	At September 30, 2014		
(in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance
Impaired loans:			
Loans with no related allowance recorded	$ 81,770	$ 97,567	$
Loans with an allowance recorded	39,321	39,581	2,636
Total	$ 121,091(1)	$ 137,148	$ 2,636

	At December 31, 2013		
(in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance
Impaired loans:			
Loans with no related allowance recorded	$ 81,301	$ 112,795	$
Loans with an allowance recorded	38,568	38,959	2,571
Total	$ 119,869(1)	$ 151,754	$ 2,571

(1) Includes $70.0 million and $70.3 million in single family performing troubled debt restructurings (TDRs) at September 30, 2014 and December 31, 2013, respectively.

HomeStreet had 247 impaired loans totaling $121.1 million at September 30, 2014 and 216 impaired loans totaling $119.9 million at December 31, 2013. The average recorded investment in these loans for the three and nine months ended September 30, 2014 was $119.1 million and $119.0 million, respectively, compared with $122.2 million and $123.5 million for the three and nine months ended September 30, 2013, respectively. Impaired loans of $39.3 million and $38.6 million had a valuation allowance of $2.6 million and $2.6 million at September 30, 2014 and December 31, 2013, respectively.

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The allowance for credit losses represents management s estimate of the incurred credit losses inherent within our loan portfolio. For further discussion related to credit policies and estimates see *Critical Accounting Policies and Estimates Allowance for Loan Losses* within HomeStreet s Management s Discussion and Analysis of this Joint Proxy Statement.

The following table presents the allowance for credit losses, including reserves for unfunded commitments, by loan class.

	At September 30, 2014			At December 31, 2013		
(in thousands)	Amount	Percent of Allowance to Total Allowance	Loan Category as a % of Total Loans	Amount	Percent of Allowance to Total Allowance	Loan Category as a % of Total Loans
Consumer loans						
Single family	$ 8,878	40.2%	39.6%	$ 11,990	49.8%	47.7%
Home equity	3,563	16.1	6.9	3,987	16.6	7.1
	12,441	56.3	46.5	15,977	66.4	54.8
Commercial loans						
Commercial real estate	3,981	18.0	26.6	4,012	16.7	25.2
Multifamily	713	3.2	3.1	942	3.9	4.2
Construction/land development	2,687	12.2	15.0	1,414	5.9	6.9
Commercial business	2,289	10.3	8.8	1,744	7.1	8.9
	9,670	43.7	53.5	8,112	33.6	45.2
Total allowance for credit losses	$ 22,111	100.0%	100.0%	$ 24,089	100.0%	100.0%

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The following table presents activity in our allowance for credit losses, which includes reserves for unfunded commitments.

(in thousands)	Three Months Ended September 30, 2014	2013	Nine Months Ended September 30, 2014	2013
Allowance at the beginning of period	$ 22,168	$ 27,858	$ 24,089	$ 27,751
Provision for loan losses		(1,500)	(1,500)	900
Recoveries:				
Consumer				
Single family	65	179	106	425
Home equity	94	273	420	526
	159	452	526	951
Commercial				
Commercial real estate	275		431	
Construction/land development	123	348	185	699
Commercial business	51	25	198	173
	449	373	814	872
Total recoveries	608	825	1,340	1,823
Charge-offs:				
Consumer				
Single family	(226)	(606)	(509)	(2,468)
Home equity	(135)	(377)	(694)	(1,515)
	(361)	(983)	(1,203)	(3,983)
Commercial				
Commercial real estate		(1,306)	(23)	(1,449)
Construction/land development				(148)
Commercial business	(304)		(592)	
	(304)	(1,306)	(615)	(1,597)
Total charge-offs	(665)	(2,289)	(1,818)	(5,580)
(Charge-offs), net of recoveries	(57)	(1,464)	(478)	(3,757)
Balance at end of period	$ 22,111	$ 24,894	$ 22,111	$ 24,894

The following table presents the composition of TDRs by accrual and nonaccrual status.

(in thousands)	At September 30, 2014 Accrual	Nonaccrual	Total

Consumer			
Single family(1)	$ 72,663	$ 1,379	$ 74,042
Home equity	2,501	20	2,521
	75,164	1,399	76,563
Commercial			
Commercial real estate	23,964	1,182	25,146
Multifamily	3,101		3,101
Construction/land development	5,693		5,693
Commercial business	658	9	667
	33,416	1,191	34,607
	$ 108,580	$ 2,590	$ 111,170

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(in thousands)	At December 31, 2013 Accrual	Nonaccrual	Total
Consumer			
Single family[1]	$ 70,304	$ 4,017	$ 74,321
Home equity	2,558	86	2,644
	72,862	4,103	76,965
Commercial			
Commercial real estate	19,620	628	20,248
Multifamily	3,163		3,163
Construction/land development	6,148		6,148
Commercial business	112		112
	29,043	628	29,671
	$ 101,905	$ 4,731	$ 106,636

(1) Includes loan balances insured by the FHA or guaranteed by the VA of $24.6 million and $17.8 million, at September 30, 2014 and December 31, 2013, respectively.

HomeStreet had 231 loan relationships classified as troubled debt restructurings (TDRs) totaling $111.2 million at September 30, 2014 with related unfunded commitments of $55 thousand. HomeStreet had 204 loan relationships classified as TDRs totaling $106.6 million at December 31, 2013 with related unfunded commitments of $47 thousand. TDR loans within the loans held for investment portfolio and the related reserves are included in the impaired loan tables above.

Delinquent loans and other real estate owned by loan type consisted of the following.

(in thousands)	At September 30, 2014 30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due and Not Accruing	90 Days or More Past Due and Still Accruing	Total Past Due Loans	Other Real Estate Owned
Consumer loans						
Single family	$ 2,406	$ 1,535	$ 8,350	$ 31,480[1]	$ 43,771	$ 2,818
Home equity	461	109	1,700		2,270	
	2,867	1,644	10,050	31,480	46,041	2,818
Commercial loans						
Commercial real estate			7,058		7,058	1,822
Multifamily						
Construction/land development						5,838
Commercial business	44		2,798		2,842	
	44		9,856		9,900	7,660

Total	$ 2,911	$ 1,644	$ 19,906	$ 31,480	$ 55,941	$ 10,478

(1) FHA-insured and VA-guaranteed single family loans that are 90 days or more past due are maintained on accrual status if they are determined to have little to no risk of loss.

(in thousands)	At December 31, 2013 30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due and Not Accruing	90 Days or More Past Due and Still Accruing(1)	Total Past Due Loans	Other Real Estate Owned
Consumer loans						
Single family	$ 6,466	$ 4,901	$ 8,861	$ 46,811(1)	$ 67,039	$ 5,246
Home equity	375	75	1,846		2,296	
	6,841	4,976	10,707	46,811	69,335	5,246
Commercial loans						
Commercial real estate			12,257		12,257	1,688
Construction/land development						5,977
Commercial business			2,743		2,743	
			15,000		15,000	7,665
Total	$ 6,841	$ 4,976	$ 25,707	$ 46,811	$ 84,335	$ 12,911

(1) FHA-insured and VA-guaranteed single family loans that are 90 days or more past due are maintained on accrual status as they have little to no risk of loss.

Fiscal Year Ended December 31, 2013

Nonperforming assets decreased to $38.6 million, or 1.26% of total assets at December 31, 2013, compared to $53.8 million, or 2.05% of total assets at December 31, 2012. Nonaccrual loans of $25.7 million, or 1.36% of total loans at December 31, 2013, declined $4.2 million, or 14.0%, from $29.9 million, or 2.24% of total loans at December 31, 2012. OREO balances of $12.9 million at December 31, 2013 declined $11.0 million, or 46.1%, from $23.9 million at December 31, 2012.

As problem loans are resolved and credit losses are realized, the credit risk inherent within the loans held for investment portfolio declines. Consequently, the level of our allowance for loan losses has also declined. At December 31, 2013, our loans held for investment portfolio, excluding the allowance for loan losses, was $1.90 billion, an increase of $559.2 million from December 31, 2012, while the allowance for loan losses decreased to $23.9 million, or 1.26% of loans held for investment, compared to $27.6 million, or 2.06% of loans held for investment at December 31, 2012. The decrease in the allowance for loan losses as a percentage of loans held for investment primarily reflected improved credit quality of our loan portfolio.

Management considers the current level of the allowance for loan losses to be appropriate to cover estimated incurred losses inherent within our loans held for investment portfolio.

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The following table presents the activity in our allowance for credit losses and those amounts that were collectively and individually evaluated for impairment at December 31, 2013 and 2012.

(in thousands)	December 31, 2013	2012
Allowance for credit losses:		
Beginning balance	$ 27,751	$ 42,800
Charge-offs	(6,854)	(29,875)
Recoveries	2,292	3,326
Provision	900	11,500
Ending balance	$ 24,089	$ 27,751
Collectively evaluated for impairment	$ 21,518	$ 21,383
Individually evaluated for impairment	2,571	6,368
Total	$ 24,089	$ 27,751
Loans held for investment:		
Collectively evaluated for impairment	$ 1,779,071	$ 1,216,146
Individually evaluated for impairment	119,869	123,965
Total	$ 1,898,940	$ 1,340,111

The allowance for credit losses represents management s estimate of the incurred credit losses inherent within our loan portfolio. For further discussion related to credit policies and estimates see *Critical Accounting Policies and Estimates Allowance for Loan Losses* within HomeStreet s Management s Discussion and Analysis of this Joint Proxy Statement.

The following table presents the recorded investment, unpaid principal balance and related allowance for impaired loans, broken down by those with and those without a specific reserve.

(in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance
Impaired loans:			
December 31, 2013			
Loans with no related allowance recorded	$ 81,301	$ 112,795	$
Loans with an allowance recorded	38,568	38,959	2,571
Total	$ 119,869	$ 151,754	$ 2,571
December 31, 2012			

Loans with no related allowance recorded	$ 53,615	$ 67,262	$
Loans with an allowance recorded	70,350	72,220	6,368
Total	$ 123,965	$ 139,482	$ 6,368

HomeStreet had 216 impaired relationships totaling $119.9 million at December 31, 2013, and 167 impaired relationships totaling $124.0 million at December 31, 2012. Included in the total impaired loan amounts were 169 single family troubled debt restructuring (TDR) loan relationships totaling $74.3 million at December 31, 2013 and 126 single family TDR relationships totaling $67.5 million at December 31, 2012. The increase in the

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number of impaired loan relationships at December 31, 2013 from 2012 was primarily due to an increase in the number of single family impaired loans. At December 31, 2013, there were 153 single family impaired relationships totaling $68.6 million that were performing per their current contractual terms. Additionally, the impaired loan balance included $17.8 million of loans insured by the FHA or guaranteed by the VA. The average recorded investment in these loans for the year ended December 31, 2013 was $122.8 million compared to $148.6 million for the year ended December 31, 2012. Impaired loans of $38.6 million and $70.4 million had a valuation allowance of $2.6 million and $6.4 million at December 31, 2013 and 2012, respectively.

The following table presents the allowance for credit losses, including reserves for unfunded commitments, by loan class.

	At December 31,					
	2013			2012		
(in thousands)	Amount	Percent of allowance to total allowance	Loan category as a % of total loans	Amount	Percent of allowance to total allowance	Loan category as a % of total loans
Consumer loans						
Single family	$ 11,990	49.8%	47.7%	$ 13,388	48.2%	50.3%
Home equity	3,987	16.6	7.1	4,648	16.8	10.2
	15,977	66.4	54.8	18,036	65.0	60.5
Commercial loans						
Commercial real estate	4,012	16.6	25.2	5,312	19.2	27.0
Multifamily	942	3.9	4.2	622	2.2	1.3
Construction/land development	1,414	5.9	6.9	1,580	5.7	5.3
Commercial business	1,744	7.2	8.9	2,201	7.9	5.9
	8,112	33.6	45.2	9,715	35.0	39.5
Total allowance for credit losses	$ 24,089	100.0%	100.0%	$ 27,751	100.0%	100.0%

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The following table presents activity in our allowance for credit losses, which includes reserves for unfunded commitments.

(in thousands)	Year Ended December 31, 2013	2012
Allowance at the beginning of period	$ 27,751	$ 42,800
Provision for loan losses	900	11,500
Recoveries:		
Consumer		
Single family	536	657
Home equity	583	631
	1,119	1,288
Commercial		
Commercial real estate	134	259
Multifamily residential		10
Construction/land development	767	1,042
Commercial business	272	727
	1,173	2,038
Total recoveries	2,292	3,326
Charge-offs:		
Consumer		
Single family	2,967	5,939
Home equity	1,960	4,264
	4,927	10,203
Commercial		
Commercial real estate	1,448	4,253
Construction/land development	458	14,861
Commercial business	21	558
	1,927	19,672
Total charge-offs	6,854	29,875
(Charge-offs), net of recoveries	(4,562)	(26,549)
Balance at end of period	$ 24,089	$ 27,751
Net charge-offs to average loans receivable, net	0.30%	2.04%

We manage asset quality and control credit risk by diversifying our loan portfolio and by applying policies designed to promote sound underwriting and loan monitoring practices. The Credit Administration department is charged with monitoring asset quality, establishing credit policies and procedures, and enforcing the consistent application of these policies and procedures across the organization.

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The following tables contain the amount of TDRs by loan type on accrual and nonaccrual status.

	At December 31, 2013					
(in thousands)	Accrual	Number of accrual relationships	Nonaccrual	Number of nonaccrual relationships	Total	Total number of relationships
Consumer:						
Single family[1]	$ 70,304	160	$ 4,017	9	$ 74,321	169
Home equity	2,558	23	86	2	2,644	25
	72,862	183	4,103	11	76,965	194
Commercial:						
Commercial real estate	19,620	2	628	1	20,248	3
Multifamily residential	3,163	2			3,163	2
Construction/land development	6,148	4			6,148	4
Commercial business	112	1			112	1
	29,043	9	628	1	29,671	10
	$ 101,905	192	$ 4,731	12	$ 106,636	204

(1) Includes $17.8 million of loans insured by the FHA or guaranteed by the VA.

	At December 31, 2012					
(in thousands)	Accrual	Number of accrual relationships	Nonaccrual	Number of nonaccrual relationships	Total	Total number of relationships
Consumer:						
Single family	$ 67,483	120	$ 3,931	$ 6	$ 71,414	126
Home equity	2,288	21	465	3	2,753	24
	69,771	141	4,396	9	74,167	150
Commercial:						
Commercial real estate	21,071	2	770	1	21,841	3
Multifamily residential	3,221	2			3,221	2
Construction/land development	6,365	4	5,042	2	11,407	6
Commercial business	147	1			147	1
	30,804	9	5,812	3	36,616	12

	$ 100,575	150	$ 10,208	12	$ 110,783	162

(1) Includes $13.1 million of loans insured by the FHA or guaranteed by the VA.

HomeStreet had 204 loan relationships classified as TDRs totaling $106.6 million at December 31, 2013 with related unfunded commitments of $47 thousand. HomeStreet had 162 loan relationships classified as TDRs totaling $110.8 million at December 31, 2012 with related unfunded commitments of $25 thousand. The increase in the number of TDR loan relationships at December 31, 2013 from 2012 was primarily due to an increase in the number of single family loan TDRs. TDR loans within the loans held for investment portfolio and the related reserves are included in the impaired loan tables above. TDR loans held for sale totaled $1.9 million comprised of five relationships, and $1.4 million comprised of six relationships, as of December 31, 2013 and 2012, respectively, and were predominantly comprised of loans repurchased from Ginnie Mae and cured by modifying interest rate terms.

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The following table presents nonperforming assets, contractually past due assets, and accruing and nonaccrual restructured loans.

	At December 31,				
(in thousands)	2013	2012	2011	2010	2009
Loans accounted for on a nonaccrual basis:(1)					
Consumer					
Single family	$ 8,861	$ 13,304	$ 12,104	$ 13,938	$ 48,400
Home equity	1,846	2,970	2,464	2,535	2,187
	10,707	16,274	14,568	16,473	50,587
Commercial					
Commercial real estate	12,257	6,403	10,184	20,259	15,981
Multifamily residential			2,394	8,167	8,489
Construction/land development		5,042	48,387	65,952	295,966
Commercial business	2,743	2,173	951	2,359	3,195
	15,000	13,618	61,916	96,737	323,631
Total loans on nonaccrual	25,707	29,892	76,484	113,210	374,218
Other real estate owned	12,911	23,941	38,572	170,455	107,782
Total nonperforming assets	$ 38,618	$ 53,833	$ 115,056	$ 283,665	$ 482,000
Loans 90 days or more past due and accruing(2)	$ 46,811	$ 40,658	$ 35,757	$ 43,503	$ 11,439
Accruing TDR loans(3)	101,905	100,575	$ 104,931	31,806	42,746
Nonaccrual TDR loans(3)	4,731	10,208	23,540	25,063	19,069
Total TDR loans	$ 106,636	$ 110,783	$ 128,471	$ 56,869	$ 61,815
Allowance for loan losses as a percent of nonaccrual loans	93.00%	92.20%	55.81%	56.69%	29.25%
Nonaccrual loans as a percentage of total loans	1.36%	2.24%	5.69%	7.06%	18.04%
Nonperforming assets as a percentage of total assets	1.26%	2.05%	5.08%	11.41%	15.02%

(1) If interest on nonaccrual loans under the original terms had been recognized, such income is estimated to have been $686 thousand, $1.1 million and $4.9 million for the years ended December 31, 2013, 2012 and 2011.

(2) FHA-insured and VA-guaranteed single family loans that are 90 days or more past due are maintained on an accrual status if they have been determined to have little or no risk of loss.

(3) At December 31, 2013, TDRs (performing and nonperforming) were comprised of 204 loan relationships totaling $106.6 million.

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The following tables present delinquent loans and OREO by loan type.

(in thousands)	30-59 Days Past Due	60-89 Days Past Due	Nonaccrual	90 Days or More Past Due and Accruing[1]	Total Past Due Loans	Other Real Estate Owned
	At December 31, 2013					
Consumer loans						
Single family	$ 6,466	$ 4,901	$ 8,861	$ 46,811	$ 67,039	$ 5,246
Home equity	375	75	1,846		2,296	
	6,841	4,976	10,707	46,811	69,335	5,246
Commercial loans						
Commercial real estate			12,257		12,257	1,688
Construction/land development						5,977
Commercial business			2,743		2,743	
			15,000		15,000	7,665
Total	$ 6,841	$ 4,976	$ 25,707	$ 46,811	$ 84,335	$ 12,911

(in thousands)	30-59 Days Past Due	60-89 Days Past Due	Nonaccrual	90 Days or More Past Due and Accruing[1]	Total Past Due Loans	Other Real Estate Owned
	At December 31, 2012					
Consumer loans						
Single family	$ 11,916	$ 4,732	$ 13,304	$ 40,658	$ 70,610	$ 4,071
Home equity	787	242	2,970		3,999	
	12,703	4,974	16,274	40,658	74,609	4,071
Commercial loans						
Commercial real estate			6,403		6,403	10,283
Construction/land development			5,042		5,042	9,587
Commercial business			2,173		2,173	
			13,618		13,618	19,870
Total	$ 12,703	$ 4,974	$ 29,892	$ 40,658	$ 88,227	$ 23,941

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The following table presents nonperforming assets by loan type by region at December 31, 2013.

(in thousands)	King[(1)]	Puget Sound Snohomish[(3)]	Pierce[(1)]	Washington Thurston[(3)]	Vancouver & Other[(2)(3)]	Spokane[(2)(3)]	Kitsap/Jefferson/ Clallam[(1)]
Loans on nonaccrual status:							
Consumer							
Single family	$ 3,032	$ 1,469	$ 1,821	$ 213	$ 292	$ 802	$
Home equity	596	117	386	22	49	77	
	3,628	1,586	2,207	235	341	879	
Commercial							
Commercial real estate	7,076	2,274				208	
Commercial business	2,520					223	
	9,596	2,274				431	
Total loans on nonaccrual status	$ 13,224	$ 3,860	$ 2,207	$ 235	$ 341	$ 1,310	$
Other real estate owned:							
Consumer							
Single family	$ 923	$ 105	$ 577	$	$	$	$
	923	105	577				
Commercial							
Commercial real estate							958
Construction/land development			325	6,219			
			325	6,219			958
Total other real estate owned	$ 923	$ 105	$ 902	$ 6,219	$	$	$ 958
Total nonperforming assets	$ 14,147	$ 3,965	$ 3,109	$ 6,454	$ 341	$ 1,310	$ 958

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(in thousands)	Idaho Boise(2)	Portland(2)(3)	Oregon Bend(2)(3)	Salem(2)	Hawaii	Total
Loans on nonaccrual status:						
Single family	$	$ 271	$ 301		$ 660	$ 8,861
Home equity		251		85	263	1,846
		522	301	85	923	10,707
Commercial real estate		2,699				12,257
Commercial business						2,743
		2,699				15,000
Total loans on nonaccrual status	$	$ 3,221	$ 301	$ 85	$ 923	$ 25,707
Other real estate owned:						
Consumer						
Single family	$	$ 1,334		$ 1,410	$ 897	$ 5,246
		1,334		1,410	897	5,246
Commercial						
Commercial real estate						958
Construction/land development		163				6,707
		163				7,665
Total other real estate owned	$	$ 1,497	$	$ 1,410	$ 897	$ 12,911
Total nonperforming assets	$	$ 4,718	$ 301	$ 1,495	$ 1,820	$ 38,618

(1) Refers to a specific county.
(2) Refers to a specific city.
(3) Also includes surrounding counties.

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The following table presents nonperforming assets by loan type by region at December 31, 2012.

		Puget Sound		Washington			
(in thousands)	King(1)	Snohomish(3)	Pierce(1)	Thurston(3)	Vancouver & Other(2)(3)	Spokane(2)(3)	Kitsap/Jefferson/ Clallam(1)
Loans on nonaccrual status:							
Consumer							
Single family	$ 4,344	$ 2,699	$ 1,361	$ 187	$	$ 715	$
Home equity	1,659	97	401	14	124	81	28
	6,003	2,796	1,762	201	124	796	28
Commercial							
Commercial real estate	1,131	4,502					
Construction/land development			311		1,112	3,619	
Commercial business	2,173						
	3,304	4,502	311		1,112	3,619	
Total loans on nonaccrual status	$ 9,307	$ 7,298	$ 2,073	$ 201	$ 1,236	$ 4,415	$ 28
Other real estate owned:							
Consumer							
Single family	$ 1,179	$ 920	$ 246	$	$	$ 425	$
	1,179	920	246			425	
Commercial							
Commercial real estate	1,207	1,636	6,957				
Construction/land development			7,172	2,415			
	1,207	1,636	14,129	2,415			
Total other real estate owned	$ 2,386	$ 2,556	$ 14,375	$ 2,415	$	$ 425	$
Total nonperforming assets	$ 11,693	$ 9,854	$ 16,448	$ 2,616	$ 1,236	$ 4,840	$ 28

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(in thousands)	Idaho Boise(2)	Portland(2)(3)	Oregon Bend(2)(3)	Salem(2)	Hawaii	Total
Loans on nonaccrual status:						
Single family	$ 205	$ 2,458	$	$	$ 1,335	$ 13,304
Home equity		221	5	94	246	2,970
	205	2,679	5	94	1,581	16,274
Commercial real estate			770			6,403
Construction/land development						5,042
Commercial business						2,173
			770			13,618
Total loans on nonaccrual status	$ 205	$ 2,679	$ 775	$ 94	$ 1,581	$ 29,892
Other real estate owned:						
Consumer						
Single family	$	$ 148	$	$ 1,153	$	$ 4,071
		148		1,153		4,071
Commercial						
Commercial real estate			483			10,283
Construction/land development						9,587
			483			19,870
Total other real estate owned	$	$ 148	$ 483	$ 1,153	$	$ 23,941
Total nonperforming assets	$ 205	$ 2,827	$ 1,258	$ 1,247	$ 1,581	$ 53,833

(1) Refers to a specific county.
(2) Refers to a specific city.
(3) Also includes surrounding counties.

The following tables present the single family loan held for investment portfolio by original FICO score.

At December 31, 2013		
Greater Than	Less Than or Equal To	Percentage(1)
N/A(2)	N/A(2)	3.9%
<	500	0.1%
500	549	0.1%
550	599	0.9%
600	649	3.3%
650	699	13.8%
700	749	25.2%

750	>	52.7%
	TOTAL	100.0%

(1) Percentages based on aggregate loan amounts.
(2) Information is not available.

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At December 31, 2012		
Greater Than	Less Than or Equal To	Percentage[1]
N/A[2]	N/A[2]	5.2%
<	500	0.1%
500	549	0.1%
550	599	1.2%
600	649	4.6%
650	699	16.2%
700	749	26.9%
750	>	45.7%
	TOTAL	100.0%

(1) Percentages based on aggregate loan amounts.
(2) Information is not available.

Our underwriting standards for single family and home equity loans require evaluating and understanding a borrower s credit, collateral and ability to repay the loan. Credit is determined based on how well a borrower manages their current and prior debts, documented by a credit report that provides credit scores and the borrower s current and past information about their credit history. Collateral is based on the type and use of property, occupancy and market value, largely determined by property appraisals. A borrower s ability to repay the loan is based on several factors, including employment, income, current debt, assets and level of equity in the property. We also consider loan-to-property value and debt-to-income ratios, loan amount and lien position in assessing whether to originate a loan. Single family and home equity borrowers are particularly susceptible to downturns in economic trends that negatively affect housing prices and demand and levels of unemployment.

For commercial, multifamily and construction lending, we consider the same factors with regard to the borrower and the guarantors. In addition, we evaluate liquidity, net worth, leverage, other outstanding indebtedness of the borrower, an analysis of cash expected to flow through the borrower (including the outflow to other lenders) and prior experience with the borrower. We use this information to assess financial capacity, profitability and experience. Ultimate repayment of these loans is sensitive to interest rate changes, general economic conditions, liquidity and availability of long-term financing.

Liquidity Risk and Capital Resources

Liquidity risk management is primarily intended to ensure we are able to maintain cash flows adequate to fund operations and meet our obligations, including demands from depositors, draws on lines of credit and paying any creditors, on a timely and cost-effective basis in various market conditions. Our liquidity profile is influenced by changes in market conditions, the composition of the balance sheet and risk tolerance levels. HomeStreet, Inc., HomeStreet Capital (HSC) and the Bank have established liquidity guidelines and operating plans that detail the sources and uses of cash and liquidity.

HomeStreet, Inc., HomeStreet Capital and HomeStreet Bank have different funding needs and sources of liquidity and separate regulatory capital requirements.

HomeStreet, Inc.

The main source of liquidity for HomeStreet, Inc. is proceeds from dividends from HomeStreet Bank and HomeStreet Capital. In the past, we have raised longer-term funds through the issuance of senior debt and TruPS. Historically, the main cash outflows were distributions to shareholders, interest and principal payments to creditors and operating expenses. HomeStreet, Inc. s ability to pay dividends to shareholders depends substantially on dividends received from HomeStreet Bank.

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On February 15, 2012, we completed our initial public offering of 8,723,632 shares of common stock for an initial offering price of $11.00 per share (after giving effect to the 2-for-1 forward stock split effective March 6, 2012 and the 2-for-1 forward stock split effective November 5, 2012). The net increase in HomeStreet s capital was $86.4 million, which included net cash proceeds of $87.7 million received in 2012, less $1.4 million of issuance costs paid in 2011. HomeStreet contributed $55.0 million to HomeStreet Bank on February 24, 2012 and an additional $10.0 million on April 26, 2012, leaving approximately $22.7 million of net proceeds at HomeStreet to be used for general corporate purposes.

HomeStreet Capital

HomeStreet Capital generates positive cash flow from its servicing fee income on the DUS portfolio, net of its costs to service the portfolio. Partially offsetting this are HomeStreet Capital s costs to purchase the servicing rights on new production from the Bank. Liquidity management and reporting requirements for DUS lenders such as HomeStreet Capital are set by Fannie Mae. HomeStreet Capital s liquidity management therefore consists of meeting Fannie Mae requirements and its own operational needs.

HomeStreet Bank

The Bank s primary short-term sources of funds include deposits, advances from the Seattle FHLB, repayments and prepayments of loans, proceeds from the sale of loans and investment securities and interest from our loans and investment securities. We have also raised short-term funds through the sale of securities under agreements to repurchase. While scheduled principal repayments on loans are a relatively predictable source of funds, deposit inflows and outflows and loan prepayments are greatly influenced by interest rates, economic conditions and competition. The primary liquidity ratio is defined as net cash, short-term investments and other marketable assets as a percent of net deposits and short-term borrowings. At September 30, 2014, our primary liquidity ratio was 36.1% compared to 26.9% at December 31, 2013 and 43.9% at December 31, 2012.

At September 30, 2014 and December 31, 2013, the Bank had available borrowing capacity of $113.8 million and $228.5 million, respectively, from the Seattle FHLB, and $390.6 million and $332.7 million, respectively, from the Federal Reserve Bank of San Francisco. At December 31, 2012, the Bank had borrowing capacity of $55.7 million from the Seattle FHLB, and $124.3 million from the FRBSF.

Our lending agreement with the Seattle FHLB permits it to refuse to make advances during periods in which an event of default (as defined in that agreement) exists. An event of default occurs when the Seattle FHLB gives notice to the Bank of an intention to take any of a list of permissible actions following the occurrence of specified events or conditions affecting the Bank. The Seattle FHLB has not declared a default under this agreement, and has not notified the Bank that future advances would not be made available, although it has required the Bank to deliver physical possession of certain negotiable instruments and related documentation as collateral for borrowings under that agreement.

In recognition of the significant improvement in the Bank s financial condition, results of operations and risk profile, the Federal Reserve Bank on July 10, 2012 granted full access to all Federal Reserve Bank lending and depository services.

Cash Flows

For the nine months ended September 30, 2014, cash and cash equivalents increased $779 thousand, compared to an increase of $12.6 million for the nine months ended September 30, 2013. For the years ended December 31, 2013, 2012 and 2011 cash and cash equivalents increased $8.6 million, decreased $238.0 million, and increased $190.7 million, respectively. The following discussion highlights the major activities and transactions that affected our cash flows during these periods.

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Cash flows from operating activities

HomeStreet s operating assets and liabilities are used to support our lending activities, including the origination and sale of mortgage loans.

For the nine months ended September 30, 2014, net cash of $352.6 million was used in operating activities, as cash used to fund loans held for sale production exceeded proceeds from the sale of loans. We believe that cash flows from operations, available cash balances and our ability to generate cash through short-term debt are sufficient to fund our operating liquidity needs. For the nine months ended September 30, 2013, net cash of $261.4 million was provided by operating activities, as proceeds from the sale of loans held for sale were largely offset by cash used to fund the production of loans held for sale.

For the year ended December 31, 2013, net cash of $304.0 million was provided by operating activities, as proceeds from the sale of loans held for sale exceeded cash used to fund loans held for sale production. During 2013, HomeStreet transferred $93.6 million of loans from loans held for investment to loans held for sale. We believe that cash flows from operations, available cash balances and our ability to generate cash through short-term debt are sufficient to fund our operating liquidity needs. For the year ended December 31, 2012, net cash of $391.9 million was used by operating activities, as higher mortgage production volumes during 2012 resulted in higher average balances of loans held for sale. Cash used to fund loans held for sale production was largely offset by proceeds from the sale of such loans.

Cash flows from investing activities

HomeStreet s investing activities primarily include available-for-sale securities and loans originated and held for investment.

For the nine months ended September 30, 2014, net cash of $24.2 million was used in investing activities, as HomeStreet increased the balances of its loans held for investment portfolio, primarily offset by the sale of loans originated as held for investment and the sale of investment securities. HomeStreet elected to sell single family mortgage loans during the second quarter of 2014 to provide additional liquidity to support the commercial loan portfolio growth and to reduce the concentration of single family mortgage loans in the portfolio. For the nine months ended September 30, 2013, net cash of $447.7 million was used in investing activities, as HomeStreet increased the balances of its investment securities portfolio and its loans held for investment portfolio.

For the year ended December 31, 2013, net cash of $459.9 million was used in investing activities. We used cash of $447.9 million in net originations and principal repayments of loans held for investment during 2013, as a result of increased originations of mortgages that exceed conventional conforming loan limits. Net purchases in our investment securities portfolio were $190.0 million during 2013. Additionally, cash of $24.0 million was provided in connection with the purchases of YNB, Fortune Bank and two AmericanWest Bank branches. For the year ended December 31, 2012, net cash of $102.9 million was used by investing activities, as we used the proceeds from our stock issuance to purchase available-for-sale securities. Net purchases in our investment securities portfolio were $119.0 million during 2012. Additionally, we realized net proceeds of $49.6 million from the sale of OREO properties during 2012.

Cash flows from financing activities

HomeStreet s financing activities are primarily related to customer deposits and net proceeds from the FHLB.

For the nine months ended September 30, 2014, net cash of $377.6 million was provided by financing activities, primarily resulting from a $214.6 million growth in deposits and net proceeds of $152.0 million of Seattle FHLB advances. For the nine months ended September 30, 2013, net cash of $199.0 million was provided by financing activities. We had net proceeds of $79.6 million of Seattle FHLB advances as HomeStreet grew its investment securities portfolio by $157.3 million and its loans held for investment portfolio by $201.2 million, both of which required additional wholesale funding.

For the year ended December 31, 2013, net cash of $164.5 million was provided by financing activities, as we increased our lower cost short-term advances from the FHLB. For the year ended December 31, 2012, net cash of $256.7 million was provided by financing activities. We had net proceeds of $200.2 million from Seattle FHLB advances as HomeStreet prepaid higher cost long-term Seattle FHLB advances, replacing these borrowings with lower cost short-term advances from the Seattle FHLB. Additionally, HomeStreet had net proceeds of $88.2 million from the issuance of common stock through our initial public offering and option exercises, which we used to invest in investment securities.

Capital Management

Federally insured depository institutions, such as HomeStreet Bank, are required to maintain a minimum level of regulatory capital. The FDIC regulations recognize two types, or tiers, of capital: core capital, or Tier 1 capital, and supplementary capital, or Tier 2 capital. The FDIC currently measures a bank s capital using (1) total risk-based capital ratio, (2) Tier 1 risk-based capital ratio and (3) Tier 1 leverage ratio. In order to qualify as well capitalized, a bank must have a total risk-based capital ratio of at least 10.0%, a Tier 1 risk-based capital ratio of at least 6.0% and a Tier 1 leverage ratio of at least 5.0%. In order to be deemed adequately capitalized, a bank generally must have a total risk-based capital ratio of at least 8.0%, a Tier 1 risk-based capital ratio of at least 4.0% and a Tier 1 leverage ratio of at least 4.0%. The FDIC retains the right to require a depository institution to maintain a higher capital level based on its particular risk profile.

At September 30, 2014, the Bank s capital ratios continued to meet the regulatory capital category of well capitalized as defined by the FDIC s prompt corrective action rules.

As of December 31, 2013, the Bank had a total risk-based capital ratio, Tier 1 risk-based capital ratio and Tier 1 leverage capital ratio of 15.46%, 14.28% and 9.96%, respectively, compared with 19.31%, 18.05% and 11.78%, as of December 31, 2012. At December 31, 2013 the Bank s capital ratios continued to meet the regulatory capital category of well capitalized as defined by the FDIC s prompt corrective action rules. The decline in the Bank s capital ratios from December 31, 2012 was primarily attributable to the fourth quarter acquisitions of Fortune Bank, Yakima National Bank and two branches from AmericanWest Bank, which created $13.6 million of intangible assets which are not included in the calculation of our capital for regulatory purposes and which resulted in an increase in average and risk-weighted assets, as well as the equity impact of lower net income in 2013.

The following tables present the Bank s capital amounts and ratios.

	At September 30, 2014					
	Actual		For Minimum Capital Adequacy Purposes		To Be Categorized As Well Capitalized Under Prompt Corrective Action Provisions	
(in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
Tier 1 leverage capital (to average assets)	$ 312,141	9.63%	$ 129,613	4.0%	$ 162,016	5.0%

Tier 1 risk-based capital (to risk-weighted assets)	312,141	13.03%	95,808	4.0%	143,713	6.0%
Total risk-based capital (to risk-weighted assets)	$ 334,251	13.96%	$ 191,617	8.0%	$ 239,521	10.0%

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	At December 31, 2013					
(in thousands)	Actual Amount	Ratio	For Minimum Capital Adequacy Purposes Amount	Ratio	To Be Categorized As Well Capitalized Under Prompt Corrective Action Provisions Amount	Ratio
Tier 1 leverage capital (to average assets)	$ 291,673	9.96%	$ 117,182	4.0%	$ 146,478	5.0%
Tier 1 risk-based capital (to risk-weighted assets)	291,673	14.12%	81,708	4.0%	122,562	6.0%
Total risk-based capital (to risk-weighted assets)	$ 315,762	15.28%	$ 163,415	8.0%	$ 204,269	10.0%

	At December 31, 2013					
(in thousands)	Actual Amount	Ratio	For Minimum Capital Adequacy Purposes Amount	Ratio	To Be Categorized As Well Capitalized Under Prompt Corrective Action Provisions Amount	Ratio
Tier 1 leverage capital (to average assets)	$ 291,673	9.96%	$ 117,182	4.0%	$ 146,478	5.0%
Tier 1 risk-based capital (to risk-weighted assets)	291,673	14.28%	81,708	4.0%	122,562	6.0%
Total risk-based capital (to risk-weighted assets)	315,762	15.46%	163,415	8.0%	204,269	10.0%

	At December 31, 2012					
(in thousands)	Actual Amount	Ratio	For Minimum Capital Adequacy Purposes Amount	Ratio	To Be Categorized As Well Capitalized Under Prompt Corrective Action Provisions Amount	Ratio
Tier 1 leverage capital (to average assets)	$ 286,963	11.78%	$ 97,466	4.0%	$ 121,833	5.0%
Tier 1 risk-based capital (to risk-weighted assets)	286,963	18.05%	63,596	4.0%	95,394	6.0%
Total risk-based capital (to risk-weighted assets)	306,934	19.31%	127,192	8.0%	158,991	10.0%

New Capital Regulations

In July 2013, federal banking regulators (including the FDIC and the FRB) adopted new capital rules (the Rules). The Rules apply to both depository institutions (such as the Bank) and their holding companies (such as HomeStreet). The Rules reflect, in part, certain standards initially adopted by the Basel Committee on Banking Supervision in December 2010 (which standards are commonly referred to as Basel III) as well as requirements contemplated by the Dodd-Frank Act.

Under the Rules, both HomeStreet and HomeStreet Bank will be required to meet certain minimum capital requirements. The Rules implement a new capital ratio of common equity Tier 1 capital to risk-based assets. Common equity Tier 1 capital generally consists of retained earnings and common stock instruments (subject to certain adjustments), as well as accumulated other comprehensive income (AOCI) except to the extent that HomeStreet and the Bank exercise a one-time irrevocable option to exclude certain components of AOCI. Both HomeStreet and the Bank expect to elect this one-time option to exclude certain components of AOCI. Both HomeStreet and the Bank are required to have a common equity Tier 1 capital ratio of 4.5%. In addition, both HomeStreet and the Bank are required to have a Tier 1 leverage ratio of 4.0%, a Tier 1 risk-based ratio of 6.0% and a total risk-based ratio of 8.0%. In addition to the preceding requirements, both HomeStreet and the Bank are required to establish a conservation buffer , consisting of common equity Tier 1 capital, which is at least 2.5% above each of the preceding common equity Tier 1 capital ratios, the Tier 1 risk-based ratio and the total risk based ratio. An institution that does not meet the conservation buffer will be subject to restrictions on certain activities including payment of dividends, stock repurchases and discretionary bonuses to executive officers. The prompt corrective action rules, which apply to the Bank but not HomeStreet, are modified to include a common equity Tier 1 risk-based ratio and to increase certain other capital requirements for the various thresholds. For example, the requirements for the Bank to be considered well-capitalized under the Rules are a 5.0% Tier 1 leverage ratio, a 6.5% common equity Tier 1 risk-based ratio, an 8.0% Tier 1 risk-based capital ratio and a 10.0% total risk-based capital ratio. To be adequately capitalized, those ratios are 4.0%, 4.5%, 6.0% and 8.0%, respectively.

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The Rules modify the manner in which certain capital elements are determined, including but not limited to, requiring certain deductions related to mortgage servicing rights and deferred tax assets. When the federal banking regulators initially proposed new capital rules in 2012, the rules would have phased out trust preferred securities as a component of Tier 1 capital. As finally adopted, however, the Rules permit holding companies with less than 815 billion in total assets as of December 31, 2009 (which includes HomeStreet) to continue to include trust preferred securities issued prior to May 19, 2010 in Tier 1 capital, generally up to 25% of other Tier 1 capital.

The Rules make changes in the methods of calculating certain risk-based assets, which in turn affects the calculation of risk- based ratios. Higher or more sensitive risk weights are assigned to various categories of assets, among which are commercial real estate, credit facilities that finance the acquisition, development or construction of real property, certain exposures or credit that are 90 days past due or are nonaccrual, foreign exposures, certain corporate exposures, securitization exposures, equity exposures and in certain cases mortgage servicing rights and deferred tax assets.

HomeStreet and HomeStreet Bank are generally required to begin compliance with the Rules on January 1, 2015. The conservation buffer will be phased in beginning in 2016 and will take full effect on January 1, 2019. Certain calculations under the Rules will also have phase-in periods. We believe that the current capital levels of HomeStreet and the Bank are in compliance with the standards under the Rules including the conservation buffer.

Impact of Inflation

The consolidated financial statements of HomeStreet incorporated by reference into this joint proxy statement have been prepared in accordance with U.S. GAAP, which requires the measurement of financial position and operating results in terms of historical dollar amounts or market value without considering the changes in the relative purchasing power of money over time due to inflation. The impact of inflation is reflected in the cost of our operations as incurred. Unlike industrial companies, nearly all of our assets and liabilities are monetary in nature. As a result, interest rates have a greater impact on our performance than do the effects of general levels of inflation.

Operational Risk Management

Operational risk is defined as the risk to current or anticipated earnings or capital arising from inadequate or failed internal processes or systems, misconduct or errors, and adverse external events.

Each line of business has primary responsibility for identifying, monitoring and controlling its operational risks. In addition, centralized departments such as our credit administration, enterprise risk management, compliance and regulatory affairs, legal, security, information security, finance and human resources provide support to the business lines as they develop and implement risk management practices specific to their needs. Our internal audit department provides independent feedback on the strength of operational risk controls and compliance with HomeStreet policies and procedures. Additionally, we maintain mature change management, business resumption and data and customer information security processes. We also maintain a code of conduct with periodic training, setting a tone from the top that articulates a strong focus on compliance and ethical standards and a zero tolerance approach to unethical or fraudulent behavior.

Compliance/Regulatory Risk Management

Compliance risk is the risk to current or anticipated earnings or capital arising from violations of, or nonconformance with, laws, rules, regulations, prescribed practices, internal policy and procedures or ethical standards.

As a regulated financial institution with a significant mortgage banking operation, we have significant compliance and regulatory risk. Historically, we have maintained a strong compliance culture and compliance management processes as evidenced by minimal compliance issues. Each business unit is responsible for

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compliance with laws and regulations and has identified an individual to participate on our compliance committee, which is chaired by the Compliance Officer. The Compliance Officer monitors all new regulations and changes to existing regulations and the new requirements are discussed at the management compliance committee to determine impact to the business units and to assign responsibilities and timelines for implementation.

Management has established a tracking process for monitoring the status of pending regulations and for implementing the regulatory requirements as they are published and become effective.

Strategic Risk Management

Strategic risk is the risk to current or anticipated earnings, capital or enterprise value arising from adverse business decisions, improper implementation of decisions or lack of responsiveness to industry changes.

Strategic risk is managed by the Board and senior management through development of strategic plans, successful implementation of business initiatives and reporting to the Board and its committees.

Reputation Risk Management

Reputation risk is defined as the risk to current or anticipated earnings, capital or enterprise value arising from negative public opinion.

We believe that we have an excellent reputation in the community primarily due to our longevity and significant outreach to the communities we serve. HomeStreet Bank has earned Outstanding ratings on every one of its Bank Community Reinvestment Act (CRA) examinations since 1986.

Market Risk Management

Market risk is defined as the sensitivity of income, fair value measurements and capital to changes in interest rates, foreign currency exchange rates, commodity prices and other relevant market rates or prices. The primary market risks that we are exposed to are price and interest rate risks. Price risk is defined as the risk to current or anticipated earnings or capital arising from changes in the value of either assets or liabilities that are entered into as part of distributing or managing risk. Interest rate risk is defined as risk to current or anticipated earnings or capital arising from movements in interest rates.

For HomeStreet, price and interest rate risks arise from the financial instruments and positions we hold. This includes loans, mortgage servicing rights, investment securities, deposits, borrowings, long-term debt and derivative financial instruments. Due to the nature of our operations, we are not subject to foreign currency exchange or commodity price risk. Our real estate loan portfolio is subject to risks associated with the local economies of our various markets and, in particular, the regional economy of the Pacific Northwest.

Our price and interest rate risks are managed by the Bank s Asset/Liability Management Committee (ALCO), a management committee that identifies and manages the sensitivity of earnings or capital to changing interest rates to achieve our overall financial objectives. ALCO is a management-level committee whose members include the Chief Investment Officer, acting as the chair, the Chief Executive Officer and other members of management. The committee meets monthly and is responsible for:

understanding the nature and level of HomeStreet s interest rate risk and interest rate sensitivity;

assessing how that risk fits within our overall business strategies;

ensuring an appropriate level of rigor and sophistication in the risk management process for the overall level of risk;

complying with and reviewing the asset/liability management policy;

formulating and implementing strategies to improve balance sheet mix and earnings.

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The Finance Committee of the Board provides oversight of the asset/liability management process, reviews the results of interest rate risk analysis and approves policies.

The spread between the yield on interest-earning assets and the cost of interest-bearing liabilities and the relative dollar amounts of these assets and liabilities are the principal items affecting net interest income. Changes in net interest spread (interest rate risk) are influenced to a significant degree by the repricing characteristics of assets and liabilities (timing risk), the relationship between various rates (basis risk), customer options (option risk) and changes in the shape of the yield curve (time-sensitive risk). We continue to manage and monitor the available-for-sale securities portfolio while maintaining a balance between risk and return. HomeStreet s funding strategy is to grow core deposits while we efficiently supplement using wholesale borrowings.

We estimate the sensitivity of our net interest income to changes in market interest rates using an interest rate simulation model that includes assumptions related to the level of balance sheet growth, deposit repricing characteristics and the rate of prepayments for multiple interest rate change scenarios. Interest rate sensitivity depends on certain repricing characteristics in our interest-earnings assets and interest-bearing liabilities, including the maturity structure of assets and liabilities and their repricing characteristics during the periods of changes in market interest rates. Effective interest rate sensitivity management seeks to ensure both assets and liabilities respond to changes in interest rates within an acceptable timeframe, minimizing the impact of interest rate changes on net interest income and capital. Interest rate sensitivity is measured as the difference between the volume of assets and liabilities, at a point in time, that are subject to repricing at various time horizons, known as interest sensitivity gaps.

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The following table presents sensitivity gaps for these different intervals.

	December 31, 2013							
llars in thousands)	3 Mos. or Less	More Than 3 Mos. to 6 Mos.	More Than 6 Mos. to 12 Mos.	More Than 12 Mos. to 3 Yrs.	More Than 3 Yrs. to 5 Yrs.	More Than 5 Yrs.	Non-Rate-Sensitive	Total
erest-earning ets:								
h & cash ivalents	$ 33,908	$	$	$	$	$	$	$ 33,90
ttle FHLB Stock						35,288		35,28
estment urities(1)	14,112	15,472	31,307	114,058	62,472	261,395		498,81
rtgage loans held sale	279,941							279,94
ans held for estment(1)	473,350	160,518	270,969	494,503	243,174	253,207		1,895,72
al interest-earning ets	801,311	175,990	302,276	608,561	305,646	549,890		2,743,67
n-interest-earning ets							322,380	322,38
al assets	$ 801,311	$ 175,990	$ 302,276	$ 608,561	$ 305,646	$ 549,890	$ 322,380	$ 3,066,05
erest-bearing bilities:								
W accounts(2)	$ 297,965	$	$	$	$	$	$	$ 297,96
tement savings ounts(2)	156,181							156,18
ney market ounts(2)	919,322							919,32
tificates of deposit	174,399	102,600	124,093	94,375	18,788	146		514,40
ttle FHLB ances	431,000					15,590		446,59
ng-term debt(3)	61,857				2,954			64,81
al interest-bearing bilities	2,040,724	102,600	124,093	94,375	21,742	15,736		2,399,27
n-interest bearing bilities							400,858	400,85
uity							265,926	265,92
al liabilities and reholders equity	$ 2,040,724	$ 102,600	$ 124,093	$ 94,375	$ 21,742	$ 15,736	$ 666,784	$ 3,066,05

erest sensitivity	$ (1,239,413)	$ 73,390	$ 178,183	$ 514,186	$ 283,904	$ 534,154
mulative interest sitivity gap	$ (1,239,413)	$ (1,166,023)	$ (987,840)	$ (473,654)	$ (189,750)	$ 344,404
mulative interest sitivity gap as a centage of total ets	(40.4)%	(38.0)%	(32.2)%	(15.4)%	(6.2)%	11.2%
mulative erest-earning assets a percentage of nulative erest-bearing bilities	39%	46%	56%	80%	92%	114%

(1) Based on contractual maturities, repricing dates and forecasted principal payments assuming normal amortization and, where applicable, prepayments.
(2) Assumes 100% of interest-bearing non-maturity deposits are subject to repricing in three months or less.
(3) Based on contractual maturity.

As of December 31, 2013, HomeStreet Bank was asset sensitive overall, but liability sensitive in the three months or less, the more than three months to six months and the more than six months to twelve months periods. The positive gap in the interest rate sensitivity analysis indicates that our net interest income would rise in the long term if market interest rates increase and generally fall in the long term if market interest rates decline.

Changes in the mix of interest-earning assets or interest-bearing liabilities can either increase or decrease the net interest margin, without affecting interest rate sensitivity. In addition, the interest rate spread between an earning asset and its funding liability can vary significantly, while the timing of repricing for both the asset and the liability remains the same, thereby impacting net interest income. This characteristic is referred to as basis risk. Varying interest rate environments can create unexpected changes in prepayment levels of assets and liabilities that are not reflected in the interest rate sensitivity analysis. These prepayments may have a significant impact on our net interest margin. Because of these factors, an interest sensitivity gap analysis may not provide an accurate assessment of our actual exposure to changes in interest rates.

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The estimated impact on our net interest income over a time horizon of one year and the change in net portfolio value as of December 31, 2013 and December 31, 2012 are provided in the table below. For the scenarios shown, the interest rate simulation assumes an instantaneous and sustained shift in market interest rates over a twelve-month period and no change in the composition or size of the balance sheet.

Change in Interest Rates	December 31, 2013		December 31, 2012	
	Percentage Change			
(basis points)	Net Interest Income[1]	Net Portfolio Value[2]	Net Interest Income[1]	Net Portfolio Value[2]
+200	(4.4)%	(21.2)%	(0.9)%	(24.7)%
+100	(1.6)	(10.9)	(0.3)	(10.8)
-100	(1.9)	7.8	(2.4)	3.2
-200	(3.0)%	6.7%	(2.0)%	6.7%

(1) This percentage change represents the impact to net interest income and servicing income for a one-year period, assuming there is no change in the structure of the balance sheet.
(2) This percentage change represents the impact to the net present value of equity, assuming there is no change in the structure of the balance sheet.

At December 31, 2013, we believe our net interest income did not exhibit a strong bias to either an increase in interest rates or a decline in interest rates. It is expected that, as interest rates change, net interest income will be positively correlated, +/- 100 (asset sensitive), however, if they continue to shift, net interest income becomes negatively correlated, +/- 200 (liability sensitive). This is typically caused by the repricing characteristics whereby an increase in market interest rates would have a slightly positive effect on net interest income. A large decrease in market interest rates would have a greater negative effect on net interest income because assets would reprice more quickly than liabilities, decreasing revenue. Some of the assumptions made in the simulation model may not materialize and unanticipated events and circumstances will occur. In addition, the simulation model does not take into account any future actions that we could undertake to mitigate an adverse impact due to changes in interest rates from those expected, in the actual level of market interest rates or competitive influences on our deposit base.

During the six months ending June 30, 2014, HomeStreet undertook certain actions in order to adjust the interest rate risk sensitivity of its balance sheet. Specifically, HomeStreet reduced the interest rate sensitivity of its available-for-sale investment securities and held-for-investment loan portfolios and extended the maturity of a portion of its Seattle FHLB borrowings. As a result of these combined actions, the estimated sensitivity of net interest income is positively correlated with changes in interest rates, meaning an increase (decrease) in interest rates would result in an increase (decrease) in net interest income.

There have been no material changes in the HomeStreet s market risk management since June 30, 2014.

Risk Management Instruments

We originate fixed-rate residential home mortgages primarily for sale into the secondary market. These loans are hedged against interest rate fluctuations from the time of the loan commitment until the loans are sold.

We have been able to manage interest rate risk by matching both on- and off-balance sheet assets and liabilities, within reasonable limits, through a range of potential rate and repricing characteristics. Where appropriate, we also use hedging techniques including the use of forward sale commitments, option contracts and interest rate swaps.

In order to protect the economic value of our mortgage servicing rights, we employ hedging strategies utilizing derivative financial instruments including forward interest rate swaps, options on interest rate swap contracts and commitments to purchase mortgage backed securities. We utilize these instruments as economic hedges and

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changes in the fair value of these instruments are recognized in current income as a component of mortgage servicing income. Our mortgage servicing rights hedging policy requires management to hedge the impact on the value of our mortgage servicing rights for a low-probability, extreme and sudden increase in interest rates. This policy requires that we hedge estimated losses to a maximum of a $2.0 million loss, subject to the limitations of hedging effectiveness including market risk, basis risk, counterparty credit risk and others.

Since December 31, 2013, there have been no material changes in the types of risk management instruments we use or in our hedging strategies.

The following table presents the financial instruments we used for hedging purposes.

	At December 31, 2013						
		Fair value		Hedged risk			
(in thousands)	Notional amount	Asset derivatives	Liability derivatives	Asset(1) interest rate locks	Asset(1) loans held for sale	Asset(1) MSR	Asset(2) loans held for investment
Forward sale commitments	$ 526,382	$ 3,630	$ (578)	$	$ 3,578	$ (526)	$
Interest rate swaptions	110,000	858	(199)			658	
Interest rate lock commitments	261,070	6,012	(40)	5,972			
Interest rate swaps	508,004	1,088	(9,548)			(3,832)	(4,628)
	$ 1,405,456	$ 11,588	$ (10,365)	$ 5,972	$ 3,578	$ (3,700)	$ (4,628)

(1) Economic fair value hedge.
(2) Fair value hedge in accordance with hedge accounting standards.

We may implement other hedge transactions using forward loan sales, futures, option contracts and interest rate swaps, interest rate floors, financial futures, forward rate agreements and U.S. Treasury options on futures or bonds. Prior to considering any hedging activities, we analyze the costs and benefits of the hedge in comparison to other viable alternative strategies.

Change of Independent Auditors

In January 2013, the Audit Committee determined that it would solicit proposals and pursue a competitive bidding process for external audit services as of and for the year ended December 31, 2013. On March 18, 2013 KPMG LLP was notified of the Audit Committee s decision to dismiss KPMG LLP as the HomeStreet s independent auditor. The reports of KPMG LLP on the financial statements of HomeStreet as of and for the fiscal years ended December 31, 2012 and 2011 did not contain an adverse opinion or disclaimer of opinion and were not qualified or modified as to uncertainty or audit scope, but the 2011 report did contain an explanatory paragraph related to the application of a new accounting principle.

There were no disagreements with KPMG LLP on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure during the fiscal years ended December 31, 2012 and 2011 and through March 18, 2013, which disagreements, if not resolved to KPMG LLP s satisfaction, would have caused KPMG LLP to make reference to the subject matter of the disagreement in its report on the HomeStreet s financial statements for such years.

The Audit Committee has selected Deloitte & Touche LLP as the HomeStreet s independent registered public accounting firm to audit the consolidated financial statements of HomeStreet and its subsidiaries for the fiscal

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year ending December 31, 2014. HomeStreet has used Deloitte & Touche LLP as our independent registered public accounting firm since January 1, 2013, when they replaced KPMG LLP, who audited the company s financial statements from 2003 through 2012.

Disclosure Controls and Procedures

After the closing of HomeStreet s books for the quarter ended September 30, 2014 and during the preparation of the HomeStreet s financial statements as of and for the three and nine month periods then ended, management discovered errors in the HomeStreet s analysis of hedge effectiveness related to fair value hedge accounting for fourteen commercial loans and related swap or derivative instruments designed to hedge against benchmark interest rate risk (Hedge Effectiveness Errors). The loans and related swaps had been originated between 2006 and 2008. Management determined that the loans and related swaps had not been evaluated in accordance with the appropriate fair value hedging methodology. The Hedge Effectiveness Errors resulted in inaccurate calculations of changes in the loan fair values related to changes in the benchmark interest rate. HomeStreet Management further determined that management of the hedging effectiveness analysis and loan valuation by the Treasury Department had been ineffective and that there was insufficient oversight provided by the Accounting Department to ensure adherence to the relevant accounting principles and to provide for an effective system of internal controls relating to these assets and liabilities.

Following the discovery of the Hedge Effectiveness Errors, management determined that the circumstances reflected a deficiency in the HomeStreet s internal accounting controls. Management then evaluated the materiality of the Hedge Effectiveness Errors to the current and prior accounting periods and determined the Hedge Effectiveness Errors were immaterial to all relevant periods. Management also evaluated the deficiency in its accounting controls based upon the potential maximum errors that could have resulted from the deficiency. Based upon that evaluation, management determined that HomeStreet had experienced a material weakness in its internal accounting controls as of September 30, 2014.

Based on HomeStreet Management s assessment of the Hedge Effectiveness Errors and related internal accounting control weakness, management determined that certain changes in the HomeStreet s internal accounting controls and other actions will be implemented during the fourth quarter of 2014, including:

- enhanced oversight by the Accounting Department of complex accounting for financial instruments within the HomeStreet s Treasury Department;

- termination of the swaps related to affected loans during the fourth quarter of 2014, an action that is expected to have no material impact upon the HomeStreet s results of operations or financial condition;

- terminating any remaining fair value hedge accounting relationships; and

- amortizing the previously recorded changes in value of the affected loans over the remaining life of those loans, an amount that in the aggregate is immaterial to the HomeStreet s results of operations and financial condition.

In addition, the HomeStreet had ceased the lending and hedging practices from 2008 that gave rise to these errors and management has no plans to reestablish any similar practices or products.

HomeStreet s Management has concluded that, as of September 30, 2014, HomeStreet s internal controls over financial reporting were not effective for the reasons set forth above.

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REGULATION AND SUPERVISION

The following is a brief description of certain laws and regulations that are applicable to HomeStreet. The description of these laws and regulations, as well as descriptions of laws and regulations contained elsewhere in this joint proxy statement, does not purport to be complete and is qualified in its entirety by reference to the applicable laws and regulations. The bank regulatory framework to which we are subject is intended primarily for the protection of bank depositors and the Deposit Insurance Fund and not for the protection of shareholders or other security holders.

General

HomeStreet is a savings and loan holding company and is regulated by the Board of Governors at the Federal Reserve System (the Federal Reserve), and the Washington State Department of Financial Institutions, Division of Banks (the WDFI). HomeStreet is required to register and file reports with, and otherwise comply with, the rules and regulations of the Federal Reserve and the WDFI.

The Office of Thrift Supervision, or the OTS, previously was HomeStreet s primary federal regulator. Under the Dodd-Frank Act, the OTS was dissolved on July 21, 2011 and its authority to supervise and regulate HomeStreet and its non-bank subsidiaries was transferred to the Federal Reserve. References to the Federal Reserve in this document should be read to include the OTS prior to the date of the transfer with respect to those functions transferred to the Federal Reserve.

HomeStreet Bank is a Washington state-chartered savings bank. HomeStreet Bank is subject to regulation, examination and supervision by the WDFI and the Federal Deposit Insurance Corporation (the FDIC).

As a result of the recent financial crisis, regulation of the financial services industry has been undergoing major changes. Among these is the Dodd-Frank Act, which makes significant modifications to and expansions of the rulemaking, supervisory and enforcement authority of the federal banking regulators. Some of the changes were effective immediately, but others are being phased in over time. The Dodd-Frank Act requires various regulators, including the banking regulators, to adopt numerous regulations, not all of which have been finalized. Accordingly, in many instances, the precise requirements of the Dodd-Frank Act are not yet known.

Further, new statutes, regulations and guidance are considered regularly that could contain wide-ranging potential changes to the competitive landscape for financial institutions operating and doing business in the United States. We cannot predict whether or in what form any proposed statute, regulation or other guidance will be adopted or promulgated, or the extent to which our business may be affected. Any change in policies, whether by the Federal Reserve, the WDFI, the FDIC, the Washington legislature or the United States Congress, could have a material adverse impact on us and our operations and shareholders. In addition, the Federal Reserve, the WDFI and the FDIC have significant discretion in connection with their supervisory and enforcement activities and examination policies, including, among other things, policies with respect to the Bank s capital levels, the classification of assets and establishment of adequate loan loss reserves for regulatory purposes.

Our operations and earnings will be affected by domestic economic conditions and the monetary and fiscal policies of the United States government and its agencies. In addition to its role as the regulator of savings and loan holding companies, the Federal Reserve has, and is likely to continue to have, an important impact on the operating results of financial institutions through its power to implement national monetary and fiscal policy including, among other things, actions taken in order to curb inflation or combat a recession. The Federal Reserve affects the levels of bank loans, investments and deposits through its control over the issuance of United States government securities, its regulation of the discount rate applicable to member banks and its influence over reserve requirements to which banks are subject. In recent years, in response to the financial crisis, the Federal Reserve has created several innovative programs to stabilize certain financial institutions, to help ensure the availability of credit and to purchase financial assets through programs such as quantitative easing.

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Quantitative easing has had a significant impact on the market for mortgage-backed securities (MBS) and by some accounts has stimulated the national economy. We believe these policies have had a beneficial effect on HomeStreet and the mortgage banking industry as a whole. In late 2013, the Federal Reserve announced it would begin to scale back its purchases of financial assets. We cannot predict the effects of this tapering. In addition, we cannot predict the nature or impact of future changes in monetary and fiscal policies of the Federal Reserve.

Regulation of HomeStreet

Because we have made an election under Section 10(1) of the Home Owners Loan Act (HOLA) for HomeStreet Bank to be treated as a savings association for purposes of Section 10 of HOLA, HomeStreet is registered as a savings and loan holding company with the Federal Reserve and is subject to Federal Reserve regulations, examinations, supervision and reporting requirements relating to savings and loan holding companies. Among other things, the Federal Reserve is authorized to restrict or prohibit activities that are determined to be a serious risk to the financial safety, soundness or stability of a subsidiary savings bank. Unlike bank holding companies, savings and loan holding companies have not been subject to any specific regulatory capital ratios, although they have been subject to review by the Federal Reserve and approval of capital levels as part of its examination process. However, under the Dodd-Frank Act, HomeStreet will become subject to capital requirements. Our continued ability to use the provisions of Section 10(1) of HOLA which allow HomeStreet to be registered as a savings and loan holding company rather than as a bank holding company is conditioned upon HomeStreet Bank s continued qualification as a lender under the Qualified Thrift Lender test set forth in HOLA. See - Regulation and Supervision of HomeStreet Bank Qualified Thrift Lender Test. Since HomeStreet Bank is chartered under Washington law, the WDFI has authority to regulate HomeStreet generally relating to its conduct affecting HomeStreet Bank. As a subsidiary of a savings and loan holding company, HomeStreet Bank is subject to certain restrictions in its dealings with HomeStreet and affiliates thereof.

Numerous provisions of the Dodd-Frank Act affect HomeStreet and its business and operations. Some of the provisions are:

- new capital requirements for savings and loan holding companies.
- all holding companies of depository institutions are required to serve as a source of strength for their depository subsidiaries.
- the Federal Reserve is given heightened authority to examine, regulate and take action with respect to all of a holding company s subsidiaries.

HomeStreet is a unitary savings and loan holding company within the meaning of federal law. Generally, companies that become savings and loan holding companies following the May 4, 1999 grandfather date in the Gramm-Leach-Bliley Act of 1999 may engage only in the activities permitted for financial institution holding companies as well as activities that are permitted for multiple savings and loan holding companies. Because HomeStreet became a savings and loan holding company prior to that grandfather date, the activities in which HomeStreet and its subsidiaries (other than HomeStreet Bank and its subsidiaries) may engage generally are not restricted by HOLA. If, however, we are acquired by a non-financial company, or if we acquire another savings association subsidiary (and become a multiple savings and loan holding company), we will terminate our grandfathered unitary savings and loan holding company status and become subject to certain limitations on the types of business activities in which we could engage. HomeStreet may not engage in any activity or render any service for or on behalf of HomeStreet Bank for the purpose of or with the effect of evading any law or regulation applicable to HomeStreet Bank.

Because HomeStreet Bank is treated as a savings association subsidiary of a savings and loan holding company, we must give the Federal Reserve at least 30 days advance notice of the proposed declaration of a dividend by HomeStreet Bank. In addition, the financial impact of a holding company on its subsidiary institution is a matter that is evaluated by the Federal Reserve, and the Federal Reserve has authority to order cessation of activities or divestiture of subsidiaries deemed to pose a threat to the safety and soundness of HomeStreet Bank.

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Capital / Source of Strength

Under the Dodd-Frank Act, capital requirements will be imposed on savings and loan holding companies such as HomeStreet. See Regulation and Supervision of HomeStreet Bank Capital and Prompt Corrective Action Requirements Proposed Capital Regulations.

Regulations and historical practice of the Federal Reserve have required bank holding companies to serve as a source of strength for their subsidiary banks. The Dodd-Frank Act codifies this requirement and extends it to all companies that control an insured depository institution. Accordingly, HomeStreet is now required to act as a source of strength for HomeStreet Bank.

Restrictions Applicable to Savings and Loan Holding Companies

Federal law prohibits a savings and loan holding company, including HomeStreet, directly or indirectly (or through one or more subsidiaries), from acquiring:

- control (as defined under HOLA) of another savings institution (or a holding company parent) without prior written approval of the Federal Reserve;
- through merger, consolidation or purchase of assets, another savings institution or a holding company thereof, or acquiring all or substantially all of the assets of such institution (or a holding company) without prior Federal Reserve or FDIC approval;
- with certain exceptions, more than 5.0% of the voting shares of a non-subsidiary savings association or a non-subsidiary holding company; or
- control of any depository institution not insured by the FDIC (except through a merger with and into the holding company s savings institution subsidiary that is approved by the FDIC).

In evaluating applications by holding companies to acquire and retain savings associations, the Federal Reserve must consider the financial and managerial resources and future prospects of HomeStreet and institution involved, the effect of the acquisition on the risk to the insurance funds, the convenience and needs of the community and competitive factors.

A savings and loan holding company generally may not acquire as a separate subsidiary a savings association in a different state from where its current savings association is located, except:

- in the case of certain emergency acquisitions approved by the FDIC;
- if such holding company controls a savings association that operated a home or branch office in such additional state as of March 5, 1987; or

if the laws of the state in which the savings association to be acquired is located specifically authorize a savings association chartered by that state to be acquired by a savings institution chartered by the state where the acquiring savings association or savings and loan holding company is located, or by a holding company that controls such a state-chartered association.

Acquisition of Control

Under the federal Change in Bank Control Act, a notice must be submitted to the Federal Reserve if any person (including a company), or group acting in concert, seeks to acquire control of a savings and loan holding company. An acquisition of control can occur upon the acquisition of 10.0% or more of the voting stock of a savings and loan holding company or as otherwise defined by the Federal Reserve. Under the Change in Bank Control Act, the Federal Reserve has 60 days from the filing of a complete notice to act (the 60-day period may be extended), taking into consideration certain factors, including the financial and managerial resources of the acquirer and the antitrust effects of the acquisition. Any company that so acquires control would then be subject to regulation as a savings and loan holding company. Control can also exist if an individual or company has, or

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exercises, directly or indirectly or by acting in concert with others, a controlling influence over HomeStreet Bank. Washington law also imposes certain limitations on the ability of persons and entities to acquire control of banking institutions and their parent companies.

Dividend Policy

Under Washington law, HomeStreet is generally permitted to make a distribution, including payments of dividends, only if, after giving effect to the distribution, in the judgment of the board of directors, (1) HomeStreet would be able to pay its debts as they become due in the ordinary course of business and (2) HomeStreet s total assets would at least equal the sum of its total liabilities plus the amount that would be needed if HomeStreet were to be dissolved at the time of the distribution to satisfy the preferential rights upon dissolution of shareholders whose preferential rights are superior to those receiving the distribution.

HomeStreet had previously elected to defer the payment of interest on its outstanding Trust Preferred Securities (TruPS), and therefore had been prohibited from declaring or paying dividends or distributions on, and from making liquidation payments with respect to, its common stock until it is current on all interest payments due. On March 12, 2013, the Federal Reserve approved HomeStreet s request to make its interest payments current on its outstanding TruPS and HomeStreet subsequently paid all deferred and current interest owed on its outstanding TruPS on March 15, 2013.

HomeStreet s ability to pay dividends to shareholders is significantly dependent on HomeStreet Bank s ability to pay dividends to HomeStreet. New capital rules will impose additional requirements on the ability of HomeStreet and HomeStreet Bank to pay dividends. See Regulation of Home Street Bank Capital and Prompt Corrective Action Requirements New Capital Regulation.

Compensation Policies

Compensation policies and practices at HomeStreet, Inc. and HomeStreet Bank are subject to regulation by their respective banking regulators and the SEC.

Guidance on Sound Incentive Compensation Policies. Effective on June 25, 2010, the Office of the Comptroller of the Currency, the Federal Reserve, the FDIC and the OTS adopted Sound Incentive Compensation Policies Final Guidance (the Final Guidance) designed to help ensure that incentive compensation policies at banking organizations do not encourage imprudent risk-taking and are consistent with the safety and soundness of the organization.

The Final Guidance applies to senior executives and others who are responsible for oversight of HomeStreet s company-wide activities and material business lines, as well as other employees who, either individually or as a part of a group, have the ability to expose HomeStreet Bank to material amounts of risk.

Dodd-Frank Act. In addition to the Final Guidance, the Dodd-Frank Act contains a number of provisions relating to compensation applying to public companies such as HomeStreet. The Dodd-Frank Act added a new Section 14A(a) to the Exchange Act that requires companies to include a separate non-binding resolution subject to shareholder vote in their proxy materials approving the executive compensation disclosed in the materials. In addition, a new Section 14A(b) to the Exchange Act requires any proxy or consent solicitation materials for a meeting seeking shareholder approval of an acquisition, merger, consolidation or disposition of all or substantially all of HomeStreet s assets to include a separate non-binding shareholder resolution approving certain golden parachute payments made in connection with the transaction. A new Section 10D to the Exchange Act requires the SEC to direct the national securities exchanges to require companies to implement a policy to claw back certain executive payments that were made based on improper financial statements.

In addition, Section 956 of the Dodd-Frank Act requires certain regulators (including the FDIC, SEC and Federal Reserve) to adopt requirements or guidelines prohibiting excessive compensation or compensation that could lead to material loss as well as rules relating to disclosure of compensation. On April 14, 2011, these regulators published a joint proposed rulemaking to implement Section 956 of Dodd-Frank for depository institutions, their holding companies and various other financial institutions with $1 billion or more in assets. Section 956 prohibits incentive-based compensation arrangements which encourage inappropriate risk taking by covered financial institutions and are deemed to be excessive, or that may lead to material losses. The proposed rule would (1) prohibit incentive-based compensation arrangements for covered persons that would encourage inappropriate risks by providing excess compensation, (2) prohibit incentive-based compensation arrangements for covered persons that would expose the institution to inappropriate risks by providing compensation that could lead to a material financial loss, (3) require policies and procedures for incentive-based compensation arrangements that are commensurate with the size and complexity of the institutions and (4) require annual reports on incentive compensation structures to the institution s appropriate federal regulator.

FDIC Regulations. We are further restricted in our ability to make certain golden parachute and indemnification payments under Part 359 of the FDIC regulations, and the FDIC also regulates payments to executives under Part 364 of its regulations relating to excessive executive compensation.

Emerging Growth Company

We are an Emerging Growth Company, as defined in the Jumpstart Our Business Startups Act (the JOBS Act), and are eligible to take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not Emerging Growth Companies. These include, but are not limited to, not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act of 2002, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, and exemptions from certain requirements under the Dodd-Frank Act, including the requirement to hold a non-binding advisory vote on executive compensation and the requirement to obtain stockholder approval of any golden parachute payments not previously approved. We currently intend to take advantage of some or all of these reporting exemptions until we are no longer qualify as an Emerging Growth Company.

We will remain an Emerging Growth Company for up to five years from the end of the year of our initial public offering, or until (1) we have total annual gross revenues of at least $1 billion, (2) we qualify as a large accelerated filer, or (3) we issue more than $1 billion in nonconvertible debt in a three-year period.

Regulation and Supervision of HomeStreet Bank

As a savings bank chartered under the laws of the State of Washington, HomeStreet Bank is subject to applicable provisions of Washington law and regulations of the WDFI. As a state-chartered savings bank that is not a member of the Federal Reserve System, HomeStreet Bank s primary federal regulator is the FDIC. It is subject to regulation and examination by the WDFI and the FDIC, as well as enforcement actions initiated by the WDFI and the FDIC, and its deposits are insured by the FDIC.

Washington Banking Regulation

As a Washington savings bank, HomeStreet Bank s operations and activities are substantially regulated by Washington law and regulations, which govern, among other things, HomeStreet Bank s ability to take deposits and pay interest, to make loans on or invest in residential and other real estate, to make consumer and commercial loans, to invest in securities, to offer various banking services to its customers and to establish branch offices. Under state law, savings banks in Washington also generally have, subject to certain limitations or approvals, all of the powers that Washington chartered commercial banks have under Washington law and that federal savings banks and national banks have under federal laws and regulations.

Washington law also governs numerous corporate activities relating to HomeStreet Bank, including HomeStreet Bank s ability to pay dividends, to engage in merger activities and to amend its articles of incorporation, as well as limitations on change of control of HomeStreet Bank. Under Washington law, the board of directors of HomeStreet Bank generally may not declare a cash dividend on its capital stock if payment of such dividend would cause its net worth to be reduced below the net worth requirements, if any, imposed by the WDFI and dividends may not be paid in an amount greater than its retained earnings without the approval of the WDFI. These restrictions are in addition to restrictions imposed by federal law. Mergers involving HomeStreet Bank and sales or acquisitions of its branches are generally subject to the approval of the WDFI. No person or entity may acquire control of the bank until 30 days after filing an application with the WDFI, who has the authority to disapprove the application. Washington law defines control of an entity to mean directly or indirectly, alone or in concert with others, to own, control or hold the power to vote 25.0% or more of the outstanding stock or voting power of the entity. Any amendment to HomeStreet Bank s articles of incorporation requires the approval of the WDFI.

The Bank is subject to periodic examination by and reporting requirements of the WDFI, as well as enforcement actions initiated by the WDFI. The WDFI s enforcement powers include the issuance of orders compelling or restricting conduct by HomeStreet Bank and the authority to bring actions to remove the bank s directors, officers and employees. The WDFI has authority to place a bank under supervisory direction or to take possession of a bank and to appoint the FDIC as receiver.

Dodd-Frank Act

Numerous provisions of the Dodd-Frank Act affect HomeStreet Bank and its business and operations. For example, the Dodd-Frank Act broadened the base for FDIC insurance assessments. Assessments are now based on the average consolidated total assets less tangible equity capital of a financial institution. The Dodd-Frank Act also permanently increased the maximum amount of deposit insurance for banks, savings institutions and credit unions to $250,000 per depositor.

In addition, under the Dodd-Frank Act:

- the requirements relating to HomeStreet Bank s capital have been modified.

- in order to prevent abusive residential lending practices, new responsibilities are imposed on parties engaged in residential mortgage origination, brokerage and lending, and securitizers of mortgages and other asset-backed securities (ABS) are required, subject to certain exemptions, to retain not less than five percent of the credit risk of the mortgages or other assets backing the securities.

- restrictions on affiliate and insider transactions are expanded.

- restrictions on management compensation and related governance have been enhanced.

- a federal Consumer Financial Protection Bureau (CFPB) is created with a broad authority to regulate consumer financial products and services.

- restrictions are imposed on the amount of interchange fees that certain debit card issuers may charge.

- restrictions on banking entities from engaging in proprietary trading or owning interests in or sponsoring hedge funds or private equity funds (the Volcker Rule), and requiring sponsors of ABS to retain an ownership stake in the ABS.

In part because not all of the regulations implementing the Dodd-Frank Act have yet been finalized or become effective, it is difficult to predict at this time what specific impact the Dodd-Frank Act and the final rules and regulations will have on community banks. However, it is expected that at a minimum they will increase our operating and compliance costs and could increase our interest expense. Any additional changes in our regulation and oversight, whether in the form of new laws, rules and regulations, could make compliance more difficult or expensive or otherwise materially adversely affect our business, financial condition or prospects. The provisions of the Dodd-Frank Act and the subsequent exercise by regulators of their revised and expanded powers thereunder could materially and negatively impact the profitability of our business, the value of assets we hold or the collateral available for our loans, require changes to business practices or force us to discontinue businesses and expose us to additional costs, taxes, liabilities, enforcement actions and reputational risk.

Insurance of Deposit Accounts and Regulation by the FDIC

The FDIC is HomeStreet Bank s principal federal bank regulator. As such, the FDIC is authorized to conduct examinations of and to require reporting by HomeStreet Bank. The FDIC may prohibit a bank from engaging in any activity determined by law, regulation or order to pose a serious risk to the institution, and may take a variety of enforcement actions in the event a bank violates a law, regulation or order, engages in an unsafe or unsound practice or under certain other circumstances. The FDIC also has the authority to appoint itself as receiver of a bank or to terminate a bank s deposit insurance if it were to determine that such a bank has engaged in unsafe or unsound practices or is in an unsafe or unsound condition.

The Bank is a member of the Deposit Insurance Fund (DIF) administered by the FDIC, which insures customer deposit accounts. Under the Dodd-Frank Act, the amount of federal deposit insurance coverage was permanently increased from $100,000 to $250,000, per depositor, for each account ownership category at each depository institution. This change made permanent the coverage increases that had been in effect since October 2008. The unlimited FDIC insurance for non-interest bearing transaction accounts that had been available since 2008 was discontinued as of December 31, 2012.

In order to maintain the DIF, member institutions, such as HomeStreet Bank, are assessed insurance premiums. In light of the stresses that have occurred on the DIF in recent years and increases in insurance coverage, assessments have risen sharply.

The Dodd-Frank Act requires the FDIC to make numerous changes to the DIF and the manner in which assessments are calculated. The minimum ratio of assets in the DIF to the total of estimated insured deposits was increased from 1.15% to 1.35%, and the FDIC is given until September 30, 2020 to meet the reserve ratio. In December 2010, the FDIC adopted a final rule setting the reserve ratio of the DIF at 2.0%. As required by the Dodd-Frank Act, assessments are now based on an insured institution s average consolidated assets less tangible equity capital.

For the purpose of determining an institution s assessment rate, each institution is provided an assessment risk assignment, which is generally based on the risk that the institution presents to the DIF. Insured institutions with assets of less than $10 billion are placed in one of four risk categories. These risk categories are generally determined based on an institution s capital levels and its supervisory evaluation. These institutions generally have an assessment rate that can range from 2.5 to 45 basis points. However, the FDIC does have flexibility to adopt assessment rates without additional rule-making provided that the total base assessment rate increase or decrease does not exceed 2 basis points. In the future, if the reserve ratio reaches certain levels, these assessment rates will generally be lowered. As of December 31, 2013, HomeStreet Bank s assessment rate was 6 basis points on average assets less average tangible equity capital.

In addition, all FDIC-insured institutions are required to pay a pro rata portion of the interest due on obligations issued by the Financing Corporation to fund the closing and disposal of failed thrift institutions by the Resolution Trust Corporation. The Financing Corporation rate is adjusted quarterly to reflect changes in assessment bases of the DIF. These assessments will continue until the Financing Corporation bonds mature in 2019. The annual rate for 2014 is 0.62 basis points.

Qualified Thrift Lender Test

A savings association can comply with the Qualified Thrift Lender test either by meeting the Qualified Thrift Lender test set forth in the HOLA and its implementing regulations or by qualifying as a domestic building and loan association as defined in Section 7701(a)(19) of the Internal Revenue Code of 1986 and implementing regulations.

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To qualify under the HOLA test, HomeStreet Bank is required to maintain at least 65% of its portfolio assets in qualified thrift investments in at least nine months of the most recent 12-month period. Portfolio assets are total assets less (1) specified liquid assets up to 20% of total assets, (2) intangibles, including goodwill, and (3) the value of the property used to conduct business. Qualified thrift investments primarily consists of residential mortgages and related investments, including certain MBS, home equity loans, credit card loans, student loans and small business loans.

To qualify under the Internal Revenue Code test, a savings association must meet both a business operations test and a 60% of assets test. The business operations test requires the business of a savings association to consist primarily of acquiring the savings of the public and investing in loans. The 60% of assets test requires that at least 60% of a savings association s assets must consist of residential real property loans and certain other traditional thrift assets. While HomeStreet Bank is eligible to qualify as a qualified thrift lender under the HOLA test, it is not clear due to statutory ambiguities that the bank is eligible to qualify under the Internal Revenue Code test. As noted above, it is necessary for HomeStreet Bank to qualify as a qualified thrift lender only under one of these two tests.

As of December 31, 2013, HomeStreet Bank held approximately 91% of its portfolio assets in qualified thrift investments and had more than $2.16 billion of its portfolio assets in qualified thrift investments for each of the 12 months ending December 31, 2013. Therefore, HomeStreet Bank qualified under the HOLA test. A savings association subsidiary of a savings and loan holding company that does not meet the Qualified Thrift Lender test must comply with the following restrictions on its operations:

- the association may not engage in any new activity or make any new investment, directly or indirectly, unless the activity or investment is also permissible for a national bank;

- the branching powers of the association are restricted to those of a national bank located in the association s home state; and

- payment of dividends by the association is subject to the rules regarding payment of dividends by a national bank and must be necessary for its parent company to meet its obligations and must receive regulatory approval.

Further, an institution which fails to comply with the qualified thrift lender test is also subject to possible agency enforcement action as a violation of law under the HOLA. In addition, if the institution does not requalify under HOLA test within three years after failing the test, the institution would be prohibited from engaging in any activity not permissible for a national bank and would have to repay any outstanding advances from the FHLB as promptly as possible. Within one year of the date that a savings association ceases to meet the Qualified Thrift Lender test, any company that controls the association must register as and be deemed to be a bank holding company subject to all of the provisions of the Bank Holding Company Act of 1956 and other statutes applicable to bank holding companies. There are certain limited exceptions to these requirements.

Capital and Prompt Corrective Action Requirements

Capital Requirements

Federally insured depository institutions, such as HomeStreet Bank, are required to maintain a minimum level of regulatory capital. Total capital generally means the sum of Tier 1 capital and Tier 2 capital. The FDIC regulations recognize two types, or tiers, of capital: core capital, or Tier 1 capital, and supplementary capital, or Tier 2 capital. Tier 1 capital generally includes common shareholders equity and noncumulative perpetual preferred stock, less most intangible assets. Tier 2 capital, which is recognized up to 100% of Tier 1 capital for risk-based capital purposes (after any deductions for disallowed intangibles and disallowed deferred tax assets), includes such items as qualifying general loan loss reserves (up to 1.25% of risk-weighted assets), cumulative perpetual preferred stock, long-term preferred stock (original maturity of at least 20 years), certain perpetual preferred stock, hybrid capital instruments including mandatory convertible debt, term subordinated debt,

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intermediate-term preferred stock (original average maturity of at least five years) and net unrealized holding gains on equity securities (subject to certain limitations); provided, however, the amount of term subordinated debt and intermediate term preferred stock that may be included in Tier 2 capital for risk-based capital purposes is limited to 50.0% of Tier 1 capital.

The FDIC currently measures a bank s capital using the (1) total risk-based capital ratio, (2) Tier 1 risk-based capital ratio and (3) Tier 1 capital leverage ratio. The risk-based measures are based on ratios of qualifying capital to risk-weighted assets. To determine risk-weighted assets, assets are placed in one of five categories and given a percentage weight based on the relative risk of that category. In addition, certain off-balance-sheet items are converted to balance-sheet credit equivalent amounts, and each amount is then assigned to one of the five categories. In evaluating the adequacy of a bank s capital, the FDIC may also consider other factors that may affect the bank s financial condition, such as interest rate risk exposure, liquidity, funding and market risks, the quality and level of earnings, concentration of credit risk, risks arising from nontraditional activities, loan and investment quality, the effectiveness of loan and investment policies, and management s ability to monitor and control financial operating risks. Under the current capital rules, banks are required to have a total risk-based capital ratio of at least 8.00%, a Tier 1 risk-based capital ratio of at least 4.00% and Tier 1 capital leverage ratio generally of at least 4.00%

Prompt Corrective Action Regulations

Section 38 of the Federal Deposit Insurance Act establishes a framework of supervisory actions for insured depository institutions that are not adequately capitalized, also known as prompt corrective action regulations. All of the federal banking agencies have promulgated substantially similar regulations to implement a system of prompt corrective action. The framework for the type of supervisory action is based on a determination of a bank s capital category as follows:

- in order to be considered well capitalized, a bank must have a total risk-based capital ratio of 10.0% or more, a Tier 1 risk-based capital ratio of 6.0% or more, a leverage capital ratio of 5.0% or more, and must not be subject to any written agreement, order or capital directive to meet and maintain a specific capital level for any capital measure;

- in order to be considered adequately capitalized, a bank must have a total risk-based capital ratio of 8.0% or more, a Tier 1 risk-based capital ratio of 4.0% or more, and a leverage capital ratio of 4.0% or more (or, a leverage ratio of at least 3.0% if the institution has a composite CAMELS (Capital adequacy, asset quality, management quality, earnings, liquidity and sensitivity to market risk) rating of 1 and is not experiencing or anticipating any significant growth);

- a bank is undercapitalized if it has a total risk-based capital ratio that is less than 8.0%, a Tier 1 risk-based capital ratio that is less than 4.0%, or a leverage capital ratio that is less than 4.0% (or a leverage ratio of at least 3.0% under certain circumstances);

- a bank is significantly undercapitalized if it has a total risk-based capital ratio that is less than 6.0%, a Tier 1 risk-based capital ratio that is less than 3.0% or a leverage capital ratio that is less than 3.0%; and

- a bank is critically undercapitalized if it has a ratio of tangible equity to total assets that is equal to or less than 2.0%.

Additionally, a bank, based upon its capital levels, that is classified as well capitalized, adequately capitalized or undercapitalized may be treated as though it were in the next lower capital category if the appropriate federal banking agency, after notice and opportunity for a hearing, determines that an unsafe or unsound condition, or an unsafe or unsound practice, warrants such treatment.

At each successive lower capital category, an insured bank is subject to increasingly severe supervisory actions. These actions include, but are not limited to, restrictions on asset growth, interest rates paid on deposits, branching, allowable transactions with affiliates, ability to pay bonuses and raises to senior executives and pursuing new lines of business. Additionally, all undercapitalized banks are required to implement capital restoration plans to restore capital to at least the adequately capitalized level, and the FDIC is generally required to close critically undercapitalized banks within a 90-day period.

New Capital Regulations

In July 2013, federal banking regulators (including the FDIC and the FRB) adopted new capital rules (the Rules). The Rules apply to both depository institutions (such as HomeStreet Bank) and their holding companies (such as HomeStreet). The Rules reflect, in part, certain standards initially adopted by the Basel Committee on Banking Supervision in December 2010 (which standards are commonly referred to as Basel III) as well as requirements contemplated by the Dodd-Frank Act.

Under the Rules, both HomeStreet and HomeStreet Bank will be required to meet certain minimum capital requirements. The Rules implement a new capital ratio of common equity Tier 1 capital to risk-based assets. Common equity Tier 1 capital generally consists of retained earnings and common stock instruments (subject to certain adjustments), as well as accumulated other comprehensive income (AOCI) except to the extent that HomeStreet and HomeStreet Bank exercise a one-time irrevocable option to exclude certain components of AOCI. Both HomeStreet and HomeStreet Bank expect to elect this one-time option to exclude certain components of AOCI. Both HomeStreet and HomeStreet Bank are required to have a common equity Tier 1 capital ratio of 4.5%. In addition, both HomeStreet and HomeStreet Bank are required to have a Tier 1 leverage ratio of 4.0%, a Tier 1 risk-based ratio of 6.0% and a total risk-based ratio of 8.0%. In addition to the preceding requirements, both HomeStreet and HomeStreet Bank are required to establish a conservation buffer, consisting of common equity Tier 1 capital, which is at least 2.5% above each of the preceding common equity Tier 1 capital ratio, the Tier 1 risk-based ratio and the total risk-based ratio. An institution that does not meet the conservation buffer will be subject to restrictions on certain activities including payment of dividends, stock repurchases and discretionary bonuses to executive officers. The prompt corrective action rules, which apply to HomeStreet Bank but not HomeStreet, are modified to include a common equity Tier 1 risk-based ratio and to increase certain other capital requirements for the various thresholds. For example, the requirements for HomeStreet Bank to be considered well-capitalized under the Rules are a 5.0% Tier 1 leverage ratio, a 6.5% common equity Tier 1 risk-based ratio, an 8.0% Tier 1 risk-based capital ratio and a 10.0% total risk-based capital ratio. To be adequately capitalized, those ratios are 4.0%, 4.5%, 6.0% and 8.0%, respectively.

The Rules modify the manner in which certain capital elements are determined, including but not limited to, requiring certain deductions related to mortgage servicing rights and deferred tax assets. When the federal banking regulators initially proposed new capital rules in 2012, the rules would have phased out trust preferred securities as a component of Tier 1 capital. As finally adopted, however, the Rules permit holding companies with less than $815 billion in total assets as of December 31, 2009 (which includes HomeStreet) to continue to include trust preferred securities issued prior to May 19, 2010 in Tier 1 capital, generally up to 25% of other Tier 1 capital.

The Rules make changes in the methods of calculating certain risk-based assets, which in turn affects the calculation of risk-based ratios. Higher or more sensitive risk weights are assigned to various categories of assets, among which are commercial real estate, credit facilities that finance the acquisition, development or construction of real property, certain exposures or credits that are 90 days past due or are nonaccrual, foreign exposures, certain corporate exposures, securitization exposures, equity exposures and in certain cases mortgage servicing rights and deferred tax assets.

HomeStreet and HomeStreet Bank are generally required to begin compliance with the Rules on January 1, 2015. The conservation buffer will be phased in beginning in 2016 and will take full effect on January 1, 2019. Certain calculations under the Rules will also have phase-in periods. We believe that the current capital levels of HomeStreet and HomeStreet Bank are in compliance with the standards under the Rules including the conservation buffer.

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Limitations on Transactions with Affiliates

Transactions between HomeStreet Bank and any affiliate are governed by Sections 23A and 23B of the Federal Reserve Act. An affiliate of a bank is any company or entity which controls, is controlled by or is under common control with that bank but which is not a subsidiary of such bank. HomeStreet and its non-bank subsidiaries are affiliates of HomeStreet Bank. Generally, Section 23A limits the extent to which a bank or its subsidiaries may engage in covered transactions with any one affiliate to an amount equal to 10.0% of the Bank s capital stock and surplus, and imposes an aggregate limit on all such transactions with all affiliates in an amount equal to 20.0% of such capital stock and surplus. Section 23B applies to covered transactions as well as certain other transactions and requires that all transactions be on terms substantially the same, or at least as favorable to the Bank, as those provided to a non-affiliate. The term covered transaction includes the making of loans to an affiliate, the purchase of or investment in the securities issued by an affiliate, the purchase of assets from an affiliate, the acceptance of securities issued by an affiliate as collateral security for a loan or extension of credit to any person or company, the issuance of a guarantee, acceptance or letter of credit on behalf of an affiliate, or certain transactions with an affiliate that involves the borrowing or lending of securities and certain derivative transactions with an affiliate.

In addition, Sections 22(g) and (h) of the Federal Reserve Act place restrictions on loans, derivatives, repurchase agreements and securities lending to executive officers, directors and principal shareholders of the Bank and its affiliates.

Standards for Safety and Soundness

The federal banking regulatory agencies have prescribed, by regulation, a set of guidelines for all insured depository institutions prescribing safety and soundness standards. These guidelines establish general standards for internal controls, information systems, internal audit systems, loan documentation, credit underwriting, interest rate risk exposure, asset growth, asset quality, earnings standards, compensation, fees and benefits. In general, the guidelines require appropriate systems and practices to identify and manage the risks and exposures specified in the guidelines before capital becomes impaired. The guidelines prohibit excessive compensation as an unsafe and unsound practice and describe compensation as excessive when the amounts paid are unreasonable or disproportionate to the services performed by an executive officer, employee, director, or principal shareholder.

Each insured depository institution must implement a comprehensive written information security program that includes administrative, technical and physical safeguards appropriate to the institution s size and complexity and the nature and scope of its activities. The information security program also must be designed to ensure the security and confidentiality of customer information, protect against any unanticipated threats or hazards to the security or integrity of such information, protect against unauthorized access to or use of such information that could result in substantial harm or inconvenience to any customer and ensure the proper disposal of customer and consumer information. Each insured depository institution must also develop and implement a risk-based response program to address incidents of unauthorized access to customer information in customer information systems. If the FDIC determines that the Bank fails to meet any standard prescribed by the guidelines, it may require the Bank to submit an acceptable plan to achieve compliance with the standard. The Bank maintains a program to meet the information security requirements and believes it is currently in compliance with this regulation.

Real Estate Lending Standards

FDIC regulations require the Bank to adopt and maintain written policies that establish appropriate limits and standards for real estate loans. These standards, which must be consistent with safe and sound banking practices, must establish loan portfolio diversification standards, prudent underwriting standards (including loan-to-value ratio limits) that are clear and measurable, loan administration procedures and documentation, approval and reporting requirements. The Bank is obligated to monitor conditions in its real estate markets to ensure that its standards continue to be appropriate for current market conditions. The Bank s board of directors is required to review and approve the Bank s standards at least annually.

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The FDIC has published guidelines for compliance with these regulations, including supervisory limitations on loan-to-value ratios for different categories of real estate loans. Under the guidelines, the aggregate amount of all loans in excess of the supervisory loan-to-value ratios should not exceed 100.0% of total capital, and the total of all loans for commercial, agricultural, multifamily or other non-one-to-four family residential properties in excess of such ratios should not exceed 30.0% of total capital. Loans in excess of the supervisory loan-to-value ratio limitations must be identified in the Bank s records and reported at least quarterly to the Bank s board of directors.

The FDIC and the federal banking agencies have also issued guidance on sound risk management practices for concentrations in commercial real estate lending. The particular focus is on exposure to commercial real estate loans that are dependent on the cash flow from the real estate held as collateral and that are likely to be sensitive to conditions in the commercial real estate market (as opposed to real estate collateral held as a secondary source of repayment or as an abundance of caution). The purpose of the guidance is not to limit a bank s commercial real estate lending but to guide banks in developing risk management practices and capital levels commensurate with the level and nature of real estate concentrations.

Risk Retention

The Dodd-Frank Act requires that, subject to certain exemptions, securitizers of mortgage and other asset-backed securities retain not less than five percent of the credit risk of the mortgages or other assets. In October 2014, the federal banking regulators, together with the SEC, the Federal Housing Finance Agency and the Department of Housing and Urban Development, adopted final regulations implementing this requirement. Generally, the regulations provide various ways in which the retention of risk requirement can be satisfied and also describe exemptions from the retention requirements for various types of assets, including exemptions for certain mortgages.

Volcker Rule

In December 2013, the FDIC, the FRB and various other federal agencies issued final rules to implement certain provisions of the Dodd-Frank Act commonly known as the Volcker Rule. Subject to certain exceptions, the final rules generally prohibit banks and affiliated companies from engaging in short-term proprietary trading of certain securities, derivatives, commodity futures and options on those instruments, for their own account. The final rules also impose restrictions on banks and their affiliates from acquiring or retaining an ownership interest in, sponsoring or having certain other relationships with hedge funds or private equity funds. Compliance with the rule will be required by July 21, 2015.

Activities and Investments of Insured State-Chartered Financial Institutions

Federal law generally prohibits FDIC-insured state banks from engaging as a principal in activities, and from making equity investments, other than those that are permissible for national banks. An insured state bank is not prohibited from, among other things, (1) acquiring or retaining a majority interest in certain subsidiaries, (2) investing as a limited partner in a partnership the sole purpose of which is direct or indirect investment in the acquisition, rehabilitation or new construction of a qualified housing project, provided that such limited partnership investments may not exceed 2.0% of the bank s total assets, (3) acquiring up to 10.0% of the voting stock of a company that solely provides or reinsures directors , trustees and officers liability insurance coverage or bankers blanket bond group insurance coverage for insured depository institutions and (4) acquiring or retaining the voting shares of a depository institution if certain requirements are met.

Washington State has enacted a law regarding financial institution parity. The law generally provides that Washington-chartered savings banks may exercise any of the powers of Washington-chartered commercial banks, national banks or federally-chartered savings banks, subject to the approval of the Director of the WDFI in certain situations.

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Environmental Issues Associated With Real Estate Lending

The Comprehensive Environmental Response, Compensation and Liability Act, or the CERCLA, is a federal statute that generally imposes strict liability on all prior and present owners and operators of sites containing hazardous waste. However, Congress has acted to protect secured creditors by providing that the term owner and operator excludes a person whose ownership is limited to protecting its security interest in the site. Since the enactment of the CERCLA, this secured creditor exemption has been the subject of judicial interpretations which have left open the possibility that lenders could be liable for cleanup costs on contaminated property that they hold as collateral for a loan. To the extent that legal uncertainty exists in this area, all creditors, including the Bank, that have made loans secured by properties with potential hazardous waste contamination (such as petroleum contamination) could be subject to liability for cleanup costs, which costs often substantially exceed the value of the collateral property.

Reserve Requirements

The Bank is subject to Federal Reserve regulations pursuant to which depositary institutions may be required to maintain non-interest-earning reserves against their deposit accounts and certain other liabilities. Currently, reserves must be maintained against transaction accounts (primarily negotiable order of withdrawal and regular checking accounts). The regulations generally require that reserves be maintained in the amount of 3.0% of the aggregate of transaction accounts over $13.3 million up to $89.0 million in 2014 and 10% of the accounts over $89.0 million. Net transaction accounts up to $13.3 million are exempt from reserve requirements. For 2015, the general requirement will be that reserves be maintained in the amount of 3.0% of the aggregate transaction accounts over $14.5 million and 10.0% of the accounts over $103.6 million. Net transaction accounts up to $14.5 million are exempt from reserve requirements.

Federal Home Loan Bank System

The Federal Home Loan Bank system consists of twelve regional Federal Home Loan Banks. Among other benefits, each of these serves as a reserve or central bank for its members within its assigned region. Each of the Federal Home Loan Banks makes available loans or advances to its members in compliance with the policies and procedures established by its board of directors. The Bank is a member of the Federal Home Loan Bank of Seattle (Seattle FHLB). As a member, the Bank is required to own stock in the Seattle FHLB and currently owns $35.3 million of stock in the Seattle FHLB. The Federal Housing Finance Agency (the Finance Agency) is the primary regulator of the Seattle FHLB, and the Finance Agency classified the Seattle FHLB as undercapitalized in August 2009. In October 2010, the Seattle FHLB entered into a Stipulation and Consent to The Issuance of a Consent Order with the Finance Agency, which sets forth requirements for capital management, asset composition and other operating and risk management improvements. In September 2012, the Finance Agency reclassified the Seattle FHLB as adequately capitalized but the Seattle FHLB remained subject to the Consent Order. On November 22, 2013, the Finance Agency issued an amended Consent Order, which modifies and supersedes the October 2010 Consent Order. The amended Consent Order acknowledges the Seattle FHLB s fulfillment of many of the requirements set forth in the 2010 Consent Order and improvements in the Seattle FHLB s financial performance, while continuing to impose certain restrictions on its ability to repurchase, redeem, and pay dividends on its capital stock. As such, Finance Agency approval or non-objection will continue to be required for all repurchases, redemptions, and dividend payments on capital stock.

In September 2014, the Seattle FHLB announced that it had entered into an agreement to merge with the Federal Home Loan Bank of Des Moines (Des Moines FHLB). The Des Moines FHLB would be the surviving institution. The merger is subject to the satisfaction or waiver of certain conditions. If the merger is consummated, HomeStreet Bank would be become a member of the Des Moines FHLB and would hold stock in the Des Moines FHLB.

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Community Reinvestment Act of 1977

Banks are subject to the provisions of the CRA of 1977, which requires the appropriate federal bank regulatory agency to assess a bank s record in meeting the credit needs of the assessment areas serviced by the bank, including low and moderate income neighborhoods. The regulatory agency s assessment of the bank s record is made available to the public. Further, these assessments are considered by regulators when evaluating mergers, acquisitions and applications to open or relocate a branch or facility. The Bank currently has a rating of Outstanding under the CRA.

Dividends

Dividends from the Bank constitute an important source of funds for dividends that may be paid by HomeStreet to shareholders. The amount of dividends payable by the Bank to HomeStreet depends upon the Bank s earnings and capital position and is limited by federal and state laws. Under Washington law, the Bank may not declare or pay a cash dividend on its capital stock if this would cause its net worth to be reduced below the net worth requirements, if any, imposed by the WDFI. In addition, dividends on the Bank s capital stock may not be paid in an amount greater than its retained earnings without the approval of the WDFI.

The amount of dividends actually paid during any one period will be strongly affected by the Bank s policy of maintaining a strong capital position. Because the Bank is treated as a savings association subsidiary of a savings and loan holding company, it must give the Federal Reserve at least 30 days advance notice of the proposed declaration of a dividend on its guaranty, permanent or other non-withdrawable stock. Federal law prohibits an insured depository institution from paying a cash dividend if this would cause the institution to be undercapitalized, as defined in the prompt corrective action regulations. Moreover, the federal bank regulatory agencies have the general authority to limit the dividends paid by insured banks if such payments are deemed to constitute an unsafe and unsound practice. New capital rules adopted by the FDIC will impose additional requirements on the Bank s ability to pay dividends. See Regulation and Supervision- Capital and Prompt Corrective Action Requirements New Capital Regulations.

Liquidity

The Bank is required to maintain a sufficient amount of liquid assets to ensure its safe and sound operation. See Management s Discussion and Analysis Liquidity Risk and Capital Resources.

Compensation

The Bank is subject to regulation of its compensation practices. See Regulation and Supervision Regulation of HomeStreet Compensation Policies.

Bank Secrecy Act and USA Patriot Act

HomeStreet and the Bank are subject to the Bank Secrecy Act, as amended by the USA PATRIOT Act, which gives the federal government powers to address money laundering and terrorist threats through enhanced domestic security measures, expanded surveillance powers and mandatory transaction reporting obligations. By way of example, the Bank Secrecy Act imposes an affirmative obligation on the Bank to report currency transactions that exceed certain thresholds and to report other transactions determined to be suspicious.

Like all United States companies and individuals, HomeStreet and the Bank are prohibited from transacting business with certain individuals and entities named on the Office of Foreign Asset Control s list of Specially Designated Nationals and Blocked Persons. Failure to comply may result in fines and other penalties. The Office of Foreign Asset

Control (OFAC) has issued guidance directed at financial institutions in which it asserted that it may, in its discretion, examine institutions determined to be high-risk or to be lacking in their efforts to comply with these prohibitions.

The Bank maintains a program to meet the requirements of the Bank Secrecy Act, USA PATRIOT Act and OFAC and believes it is currently in compliance with these requirements.

Identity Theft

Section 315 of the Fair and Accurate Credit Transactions Act (FACT Act) requires each financial institution or creditor to develop and implement a written Identity Theft Prevention Program to detect, prevent and mitigate identity theft red flags in connection with the opening of certain accounts or certain existing accounts.

The Bank maintains a program to meet the requirements of Section 315 of the FACT Act and believes it is currently in compliance with these requirements.

Consumer Protection Laws and Regulations

The Bank and its affiliates are subject to a broad array of federal and state consumer protection laws and regulations that govern almost every aspect of its business relationships with consumers. While this list is not exhaustive, these include the Truth-in-Lending Act, the Truth in Savings Act, the Electronic Fund Transfer Act, the Expedited Funds Availability Act, the Equal Credit Opportunity Act, the Fair Housing Act, the Secure and Fair Enforcement in Mortgage Licensing Act, the Real Estate Settlement Procedures Act, the Home Mortgage Disclosure Act, the Fair Credit Reporting Act, the Fair Debt Collection Practices Act, the Service Members Civil Relief Act, the Right to Financial Privacy Act, the Home Ownership and Equity Protection Act, the Consumer Leasing Act, the Fair Credit Billing Act, the Homeowners Protection Act, the Check Clearing for the 21st Century Act, laws governing flood insurance, laws governing consumer protections in connection with the sale of insurance, federal and state laws prohibiting unfair and deceptive business practices, foreclosure laws and various regulations that implement some or all of the foregoing. These laws and regulations mandate certain disclosure requirements and regulate the manner in which financial institutions must deal with customers when taking deposits, making loans, collecting loans and providing other services. Failure to comply with these laws and regulations can subject the Bank to various penalties, including but not limited to, enforcement actions, injunctions, fines, civil liability, criminal penalties, punitive damages and the loss of certain contractual rights. The Bank has a compliance governance structure in place to help ensure its compliance with these requirements.

The Dodd-Frank Act established the CFPB as a new independent bureau that is responsible for regulating consumer financial products and services under federal consumer financial laws. The CFPB has broad rulemaking authority with respect to these laws and exclusive examination and primary enforcement authority with respect to banks with assets of $10 billion or more.

The Dodd-Frank Act also contains a variety of provisions intended to reform consumer mortgage practices. The provisions include (1) a requirement that lenders make a determination that at the time a residential mortgage loan is consummated the consumer has a reasonable ability to repay the loan and related costs, (2) a ban on loan originator compensation based on the interest rate or other terms of the loan (other than the amount of the principal), (3) a ban on prepayment penalties for certain types of loans, (4) bans on arbitration provisions in mortgage loans and (5) requirements for enhanced disclosures in connection with the making of a loan. The Dodd-Frank Act also imposes a variety of requirements on entities that service mortgage loans.

The Dodd-Frank Act contains provisions further regulating payment card transactions. The Dodd-Frank Act required the Federal Reserve to adopt regulations limiting any interchange fee for a debit transaction to an amount which is reasonable and proportional to the costs incurred by the issuer. The Federal Reserve has adopted final regulations limiting the amount of debit interchange fees that large bank issuers may charge or receive on their debit card transactions. There is an exemption from the rules for issuers with assets of less than $10 billion and the Federal Reserve has stated that it will monitor and report to Congress on the effectiveness of the exemption. Nevertheless, it is unclear whether such smaller issuers (which include the Bank) will, as a practical matter, be able to avoid the impact of the regulations.

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Sarbanes-Oxley Act of 2002

The Sarbanes-Oxley Act of 2002 (Sarbanes-Oxley) implemented a broad range of corporate governance and accounting measures to increase corporate responsibility, to provide for enhanced penalties for accounting and auditing improprieties at publicly traded companies, and to protect investors by improving the accuracy and reliability of disclosures under federal securities laws. We are subject to Sarbanes-Oxley because we are required to file periodic reports with the SEC under the Securities Exchange Act of 1934. Among other things, Sarbanes-Oxley and/or its implementing regulations establishes membership requirements and additional responsibilities for our audit committee, imposes restrictions on the relationship between us and our outside auditors (including restrictions on the types of non-audit services our auditors may provide to us), imposes additional responsibilities for our external financial statements on our chief executive officer and chief accounting officer, expands the disclosure requirements for our corporate insiders, requires our management to evaluate our disclosure controls and procedures and our internal control over financial reporting, and requires our independent registered public accounting firm to issue a report on our internal control over financial reporting.

Future Legislation or Regulation

In light of recent conditions in the United States economy and the financial services industry, the Obama administration, Congress, the regulators and various states continue to focus attention on the financial services industry. Additional proposals that affect the industry have been and will likely continue to be introduced. We cannot predict whether any of these proposals will be enacted or adopted or, if they are, the effect they would have on our business, our operations or our financial condition.

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MANAGEMENT

Directors of HomeStreet, Inc.

Director	Age	Director Since	Class	Term Expiration
David A. Ederer, Chairman	72	2005	Class III	2017 annual meeting
Mark K. Mason	55	2010	Class I	2015 annual meeting
Scott M. Boggs	59	2012	Class I	2015 annual meeting
Timothy R. Chrisman	68	2014	Class I	2015 annual meeting
Victor H. Indiek	77	2012	Class II	2016 annual meeting
Thomas E. King	70	2012	Class III	2017 annual meeting
George Judd Kirk	69	2012	Class III	2017 annual meeting
Michael J. Malone	70	2012	Class II	2016 annual meeting
Douglas I. Smith	51	2012	Class I	2015 annual meeting
Bruce W. Williams	61	1994	Class II	2016 annual meeting
Appointee				
Donald R. Voss	64	N/A	Class I	2015 annual meeting

HomeStreet s Board of Directors consists of 10 members. In 2013, HomeStreet s Board of Directors met 9 times, and in 2014, through December 1, 2014, our board of directors has met 11 times. Our Board of Directors is divided into three classes, with one-third of our directors are elected each year to serve for a three year-term or until a successor is duly elected and qualified. Under our present bylaws, directors must comply with all applicable laws and regulations, including any required approvals from our regulators.

The number of directors may be increased or decreased from time to time by our Board of Directors, provided that a reduction in the number of directors may not shorten the term of an incumbent. Newly created directorships resulting from any increase in the authorized number of directors or any vacancies in the Board may be filled solely by the affirmative vote of a majority of the remaining directors then in office, unless otherwise provided by law or by resolution of the Board. In connection with the merger, the Board of Directors will increase the number of directors to eleven and expects to appoint Donald R. Voss to fill the newly created vacancy upon the closing of the merger. A majority of our directors satisfy the definition of independent director under the corporate governance rules of Nasdaq.

Proposed Appointee Pursuant to Merger Agreement

***Donald R. Voss, Appointee*.** Mr. Voss was appointed as Chairman of the Simplicity Board on October 30, 2013. He is also an elected Councilmember of the City of La Cañada Flintridge, California. He became a member of the City Council in 2006 following five years of service as City Treasurer. Previously, Mr. Voss held a variety of positions in a 25-year career with First Interstate Bank, culminating as an Executive Vice President and Manager of the U.S. Banking Division. Much of his banking experience was with domestic and international financial institutions. He brings general business, financial, credit and risk management, treasury management, and governance skills, which are of importance to his service on our board, audit committee and governance/nominating committee.

Directors

David A. Ederer, Director and Chairman of the Board. Mr. Ederer joined HomeStreet Bank in 2004 as a member of its board of directors and in 2005 also became a member of the board of directors of HomeStreet, Inc. Mr. Ederer was elected chairman of that board in 2009. Since 1974 Mr. Ederer has served as the chairman of Ederer Investment Company, a private investment company, and he currently serves on the board of directors of the Prostate Cancer Foundation (formerly CaPCURE), PONCHO, CRISTA Ministries and the University of

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Washington Medical Institute for Prostate Cancer Research. Mr. Ederer has previously served as a director of a number of public and private companies, organizations and institutions, including Cascade Natural Gas, University Savings Bank, Farmers New World Life Insurance Company, Children s Hospital and Seattle Pacific University. Mr. Ederer is a certified public accountant (inactive) and managed consulting, accounting and auditing services for Price Waterhouse from 1965 to 1974. Mr. Ederer received a bachelor s degree in Business Administration from the University of Washington. Mr. Ederer was selected to serve as a director because of his experience as a director on public company boards, his experience on board committees, his financial expertise and his professional degrees and training in business and management.

Mark K. Mason, Director, Vice Chairman, Chief Executive Officer and President of HomeStreet, Inc. Mr. Mason has been HomeStreet Vice Chairman and Chief Executive Officer and HomeStreet Bank s Chairman and Chief Executive Officer since January 20, 2010. From 1998 to 2002, Mr. Mason was president, chief executive officer and chief lending officer for Bank Plus Corporation and its wholly owned banking subsidiary, Fidelity Federal Bank, where Mr. Mason also served as the chief financial officer from 1994 to 1995 and as chairman of the board of directors from 1998 to 2002. Most recently Mr. Mason served as president of a startup energy company, TEFCO, LLC, and he served on the boards of directors of Hanmi Financial Corp., San Diego Community Bank, and The Bjurman Barry Family of Mutual Funds. Mr. Mason is currently on the board of directors of the Pacific Coast Banking School. Mr. Mason is a certified public accountant (inactive) and holds a bachelor s degree in Business Administration with an emphasis in Accounting from California State Polytechnic University. Mr. Mason brings extensive business, managerial and leadership experience to our board of directors. Mr. Mason was selected to serve as a director because of his significant experience as an executive officer, director and consultant to banks and mortgage companies, his credit and lending experience, finance and accounting education and experience, distressed institution turnaround experience and relationships in HomeStreet Banking industry and the capital markets.

Scott M. Boggs. Mr. Boggs joined HomeStreet Bank in 2006 as a member of the board of directors and became a director of HomeStreet, Inc. following the closing of our initial public offering in February 2012. Prior to joining HomeStreet Bank, Mr. Boggs was employed by Microsoft Corporation from 1993 to 2003 where he served in a variety of positions including vice president, corporate controller from 1998 to 2003. Mr. Boggs was also an adjunct professor for the Seattle University Albers School of Business and Economics teaching accounting and information systems from 2004 until 2009. Mr. Boggs previously served as a trustee and chair of the audit committee and budget and investments committee of the Financial Executives Research Foundation from 2002 to 2008, as director, chair of the pension committee and audit committee and designated financial expert of the Cascade Natural Gas Corporation from 2004 to 2007, and director, vice chair of audit committee and designated financial expert of the Safeco family of mutual funds from 2002 to 2004. He is a former member of the King County Strategic Technology Advisory Council, the Seattle University Accounting Advisory Board and the Financial Executives International. Mr. Boggs started his career as a certified public accountant with Deloitte, Haskins & Sells from 1977 to 1985, and he received his bachelor s degree in Accounting from the University of Washington. Mr. Boggs was selected to serve as a director because of his significant accounting and financial experience, his accounting credentials and degree as well as his experience as a designated financial expert on audit committees.

Timothy R. Chrisman. Mr. Chrisman jointed our Board of Directors in July of 2014. Mr. Chrisman is the Founding Partner of Chrisman & Company, a Los Angeles-based retained executive search firm, focusing on financial and related industries. His executive search experience ranges from senior to executive management positions to corporate board appointments for a portfolio of prominent nationwide clients. Mr. Chrisman was Chairman of BANC of California, Inc. (NASDAQ: BANC), the holding company for Banc of California, N.A. from 2011 to May 2014. He previously served as Director of Commercial Capital Bank and Commercial Capital Bancorp of Irvine, California until March 2005 and as Chairman of Hawthorne Savings from 1995 to 2004. From 2003 to 2013, he was a Director of the Federal Home Loan Bank (FHLB) of San Francisco, where he also served as Chairman from 2005 until 2013.

He is also the former Chairman of the Council of Federal Home Loan Banks, the system s 12-bank trade organization. Mr. Chrisman served for several years as a National Director and Vice

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Chairman of Operation HOPE, Inc., a nonprofit social investment bank and a national provider of financial literacy and economic empowerment programs. Since 2008, he has served as a Senior Advisor to the investment banking firm, FIG Partners LLC. He holds an M.B.A. from California State University.

Victor H. Indiek. Mr. Indiek joined the Board of Directors of HomeStreet, Inc. and HomeStreet Bank upon the closing of our initial public offering in February 2012. He has been a project manager at Quantum Partners since 2007 where he manages FDIC receiverships, including the disposition of the assets of failed banks. He is currently a principal at Indiek Realty/Finance, which he formed in 1995. From 1999 to 2002 he served as a director and chairman of the audit committee of Bank Plus Corporation and Fidelity Federal Bank. Mr. Indiek was also involved in the formation of Freddie Mac, serving initially as its first chief financial officer from 1970 to 1973 and then as its president and chief executive officer from 1974 to 1977. He subsequently served as an executive officer at several financial institutions, including American Diversified Savings, American Savings/Financial Corporation of America and FarWest Savings, and as an audit manager for Arthur Andersen & Co. Mr. Indiek holds a bachelor s degree in accounting from the University of Kansas, is a certified public accountant (inactive) and a California real estate broker. Mr. Indiek was selected to serve as a director because of his extensive experience in HomeStreet Banking and mortgage banking industries and because of his accounting education and experience.

Thomas E. King. Mr. King joined the board of directors of HomeStreet Bank in 2010 and became a director of HomeStreet, Inc. following the closing of its initial public offering in February 2012. Prior to joining HomeStreet Bank s board, Mr. King served as president and chief executive officer, chief credit officer and director of San Diego Community Bank from 2001 to 2006. Since retiring from San Diego Community Bank following its sale to First Banks, Inc. in 2006, Mr. King has provided consulting services to banks and other financial services companies. Prior to joining San Diego Community Bank, he served as executive vice president and chief operating officer of Fullerton Community Bank from 1997 to 1998, president and chief executive officer and director of Bank of Southern California from 1994 to 1996, and president, chief executive officer and director of Capitol Bank Sacramento from 1992 to 1994. From 1969 to 1992, Mr. King held various senior positions in commercial lending, real estate lending, credit administration, corporate and merchant banking and retail banking at Security Pacific National Bank. He received a bachelor s degree in Business Administration from California State University, Northridge. Mr. King was chosen to serve as a director because of his experience as an executive officer, director and consultant to banks and financial services companies, his commercial banking relationships, his financial experience, commercial lending and credit administration experience and distressed institution turnaround experience.

George Judd Kirk. Mr. Kirk, who currently serves as the lead director of HomeStreet Bank, has served as a member of the board of directors of HomeStreet Bank since 2008 and became a director of HomeStreet, Inc. following the closing of its initial public offering in February 2012. Mr. Kirk served as president of Port Blakely Communities, Inc. from 1997 to 2007 and as its Chief Executive Officer from 2007 to 2008. Prior to joining Port Blakely Communities, he served as president of Skinner Development Company and until 1986, chaired the Real Estate Department of Davis Wright Tremaine LLP in Seattle. Mr. Kirk is a past member of the Washington State Bar Association (WSBA). He has previously served as a member of the Urban Land Institute (CDC Council), American College of Real Estate Lawyers, and the Pacific Real Estate Institute. He has also been a member of the boards of directors of several community organizations, including University of Washington Physicians and the Cascade Land Conservancy. Mr. Kirk has previously served as the chairman of the WSBA Real Property, Probate and Trust Section, President of the Issaquah Chamber of Commerce and President of the University of Washington Alumni Association. Mr. Kirk received a bachelor s degree in Finance from the University of Washington, School of Business, and a law degree *cum laude* from Harvard Law School. Mr. Kirk was selected to serve as a director because of his business and management experience, his real estate development experience, his knowledge of real estate and real estate finance and his legal experience, as well as his civic and community service involvement.

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Michael J. Malone. Mr. Malone has served on the board of directors and the audit committee of Expeditors International since 1999. Mr. Malone joined the Board of Directors of HomeStreet, Inc. upon the closing of our initial public offering in February 2012. Mr. Malone is the retired chairman and chief executive officer of AEI/DMX Music, a company he founded in 1971. Mr. Malone serves on the Seattle Police Foundation, having been a founding member and past chairman. Additionally, he serves on the National Council of the National Trust for Historic Preservation, the board of directors of the Northwest African American Museum, and the board of directors of Capitol Hill Housing in Seattle. Mr. Malone holds a bachelor s degree from the University of Washington. Mr. Malone was selected to serve as a director because of his experience as a public company director and committee member and his business experience and training.

Douglas I. Smith. Mr. Smith joined our Board of Directors upon the closing of our initial public offering in February 2012. Mr. Smith has worked for Miller and Smith Inc., a privately held residential land development and home building company in metropolitan Washington, D.C., since 1992, and has served as its president since 1998. Mr. Smith holds an MBA from Harvard Business School and a bachelor s degree in economics from DePauw University. Mr. Smith has been elected to serve as a director because of his experience in the residential construction lending area as well as his experience in the home building and land development industries.

Bruce W. Williams. Mr. Williams has served as a member of the Board of Directors for HomeStreet, Inc. since 1994. Mr. Williams began serving as an officer of HomeStreet in 1990, first as our general counsel and then as a senior vice president. In 2000, he was promoted to president and chief operating officer and then to chief executive officer in 2002, a position that he held until January 2010. Prior to working at HomeStreet, Mr. Williams served for two years in the U.S. Peace Corps as a college professor in Liberia. From 1982 to 1987 Mr. Williams worked as an attorney at Perkins Coie LLP in Seattle. Mr. Williams currently serves on the board of trustees of PCC Natural Markets and chairs its Finance Committee. He formerly was Chair and Treasurer of Forterra (formerly known as the Cascade Land Conservancy). Mr. Williams previously served on the Visiting Committee of the University of Washington Daniel J. Evans School of Public Affairs, Chair of the Washington Financial League, on the Boards of Directors of the Mortgage Bankers Association of America, the Washington Roundtable and the Seattle Chamber of Commerce and on the International Advisory Board of the Seattle Public Schools. Mr. Williams holds a bachelor s degree in History from Stanford University and a law degree from the University of Washington School of Law. Mr. Williams was selected to serve as a director because of his experience as an executive officer, director of HomeStreet Bank, legal degree and experience and involvement in local community affairs in Seattle.

Corporate Governance

Code of Ethics

The Board has established a code of ethics as defined under the Exchange Act that applies to all HomeStreet directors, officers and employees, including our principal executive officer, principal financial officer and principal accounting officer. A copy of our Code of Business Conduct and Ethics (Code of Ethics) is available on our website at http://ir.homestreet.com. We will post on our website any amendments to, or waivers (with respect to our principal executive officer, principal financial officer and principal accounting officer) from, this Code of Ethics within four business days of any such amendment or waiver. Among other things, the Code of Ethics addresses the following principles:

- complying with laws and regulations;

prohibiting insider trading;

avoiding conflicts of interest;

avoiding questionable gifts or favors;

maintaining accurate and complete records;

treating others in an ethical manner;

maintaining integrity of consultants, agents and representatives; and

protecting proprietary information and proper use of assets.

Compliance with Section 16(a) of the Exchange Act

Section 16(a) of the Exchange Act requires our executive officers and directors, and persons who own more than ten percent of a registered class of our equity securities (our Reporting Persons), to file with the Securities and Exchange Commission reports of ownership and reports of changes in ownership of common stock and our other equity securities. Reporting Persons are required by SEC regulations to furnish us with copies of all Section 16(a) forms they file. Based solely on our review of such reports received or written representations from certain Reporting Persons, HomeStreet believes that during fiscal 2013 all Reporting Persons complied with all applicable requirements, except that one director had two late Form 4s, and two executive officers had one late Form 4 each.

Principles of Corporate Governance

HomeStreet has adopted Principles of Corporate Governance, which are available on HomeStreet s website at http://ir.homestreet.com. Shareholders may request a free copy of the Principles of Corporate Governance at the address and phone numbers set forth above.

Director Independence

The Board has determined that, with the exception of Mark Mason, all of its members are currently independent directors as that term is defined in the listing standards of Nasdaq. In the course of determining the independence of each nonemployee director, the Board considered the annual amount of HomeStreet s sales to, or purchases from, any company where a nonemployee director serves as an executive officer as well as all other relevant facts and circumstances, including the director s commercial, accounting, legal, banking, consulting, charitable and familial relationships.

Board Leadership Structure

Our Board of Directors believes that it is in the best interests of HomeStreet for the Board to retain discretion to make a determination regarding whether or not to separate the roles of Chairman of the Board and Chief Executive Officer based upon varying circumstances. The Board of Directors is currently chaired by an independent director, Mr. Ederer, who is subject to re-appointment as Chairman of the Board each year by the Board of Directors.

The Board presently believes that having two different individuals serve in the roles of Chairman of the Board and Chief Executive Officer is in the best interests of HomeStreet and that separating these roles provides the right foundation for HomeStreet to pursue its strategic and operational objectives while maintaining effective oversight and objective evaluation of corporate performance. By allowing our Chief Executive Officer to focus on his operational responsibilities, while keeping a measure of independence between the oversight function of the Board and those operating decisions, the Board believes that this leadership structure provides an appropriate allocation of roles and responsibilities at this time.

Board Role in Risk Oversight

The Board is responsible for overseeing the major risks facing HomeStreet while management is responsible for assessing and mitigating HomeStreet s risks on a day-to-day basis. In addition, the Board has delegated oversight

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of certain categories of risk to the Audit Committee, the Enterprise Risk Management Committee, and the HRCG Committee. The Audit Committee reviews and discusses with management significant financial and nonfinancial risk exposures and the steps management has taken to monitor, control and report such exposures. The Risk Management Committee oversees and assesses the adequacy of HomeStreet s management of key enterprise-wide risks and monitors HomeStreet s risk profile and exposure to various types of risks. The HRCG Committee oversees management of risks relating to HomeStreet s governance, compensation plans and programs. The Audit Committee, the Enterprise Risk Management Committee and the HRCG Committee report to the Board as appropriate on matters that involve specific areas of risk that each committee oversees, and with the Board, each committee periodically discusses with management HomeStreet s policies with respect to risk assessment and risk management.

Employee Compensation Risks

HomeStreet s management and the HRCG Committee have assessed the risks associated with our compensation policies and practices for all employees, including non-executive officers. Based on the results of this assessment, we do not believe that our compensation policies and practices for all employees, including non-executive officers, create risks that are reasonably likely to have a material adverse effect on HomeStreet.

Board Meetings and Committees

During the year ended December 31, 2013, the Board held 9 meetings. Except for Mr. Malone who attended 6 out of the 9 meetings of the Board of Directors, each of our directors attended or participated in 75% or more of the aggregate of the total number of meetings of the Board and the total number of meetings held by all committees of the Board on which that director served during 2013.

The Board of Directors has three standing committees: an Audit Committee, an Enterprise Risk Management Committee and a Human Resources and Corporate Governance Committee.

Committee Membership of Directors of HomeStreet, Inc.

Director	**Audit Committee**	**Human Resources and Corporate Governance Committee**	**Enterprise Risk Management Committee**
David A. Ederer	X		
Mark K. Mason			
Scott M. Boggs	Chair		Chair
Victor H. Indiek	X		X
Thomas E. King		X	X
George Judd Kirk	X	Chair	X
Michael J. Malone		X	
Douglas I. Smith	X	X	
Timothy R. Chrisman		X	
Bruce W. Williams			X

Audit Committee

The Audit Committee of HomeStreet, Inc. is composed solely of independent directors as required by the Nasdaq corporate governance standards, and each of Messrs. Boggs, Ederer, Indiek, Kirk and Smith, meets the independence requirements set forth in all applicable Nasdaq corporate governance standards and Rule 10A-3 under the Exchange Act. Mr. Boggs is also qualified as an audit committee financial expert.

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HomeStreet s Board of Directors has adopted a written Audit Committee charter that meets the requirements of the applicable Exchange Act rules and the applicable Nasdaq corporate governance standards. A copy of this charter is available on our website at http://ir.homestreet.com. Among other things, the Audit Committee charter requires the Audit Committee to:

- oversee the financial reporting process on behalf of our board of directors, review and discuss the audited financial statements, including significant financial reporting judgments, with management and HomeStreet s auditors and report the results of its activities to the board;
- be responsible for the appointment, retention, compensation, oversight, evaluation and termination of our auditors and review the engagement and independence of our auditors;
- review and approve non-audit services, including a reconciliation of fees actually paid for non-credit services as compared to fees previously approved for such services;
- review the adequacy of our internal accounting controls and financial reporting processes;
- review earnings and other financial releases and disclosure controls processes;
- approve and monitor our internal audit plans and policies;
- review the performance compensation and independence of our Chief Audit Officer;
- annually evaluate the performance of the Audit Committee and assess the adequacy of the Audit Committee charter; and
- review and enforce our Code of Ethics.

The Audit Committee held 11 meetings during the fiscal year ended December 31, 2013.

Enterprise Risk Management Committee

The Enterprise Risk Management Committee was formed in October 2012. The membership of the Enterprise Risk Management Committee is limited to persons who meet the independence standards established by the Nasdaq corporate governance rules and is currently comprised solely of independent directors as defined by such rules. The Enterprise Risk Management Committee oversees and assesses the adequacy of HomeStreet s tolerance and management of key enterprise-wide risks, including credit, interest rate risk, liquidity, price, operational, compliance/legal, strategic and reputational risks. The Enterprise Risk Management Committee is also responsible for monitoring HomeStreet s risk profile and exposure to various types of risks, as well as reviewing management s adherence to HomeStreet s established risk management policies and benchmarks. In conjunction with forming the Enterprise Risk Management Committee, HomeStreet hired a senior management level employee who serves as HomeStreet s Enterprise Risk Management Director and reports directly to the Chair of the Enterprise Risk Management Committee. The Enterprise Risk Management Committee is required to meet at least quarterly.

The Board has adopted a written Enterprise Risk Management Committee charter, a current copy of which is available on our website at http://ir.homestreet.com. Among other things, this charter requires the Enterprise Risk Management Committee to:

- define, in conjunction with the Board and management, HomeStreet s risk appetite and tolerances for risk of HomeStreet and its subsidiaries;

- review and approve HomeStreet s enterprise risk assessments prepared in connection with HomeStreet s strategic plan;

- monitor the implementation of changes in significant regulations and the impact of such changes upon HomeStreet s significant risks;

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- monitor overall capital adequacy and capacity within the context of the approved risk limits and actual results;
- provide a forum for evaluating and integrating risk issues, processes and events arising within HomeStreet and its subsidiaries;
- coordinate with various Board committees a discussion of HomeStreet s significant processes for risk assessment, risk management and actions taken by management to monitor, control and remediate risk exposures; and
- review the performance compensation of the Enterprise Risk Management Director.

The Enterprise Risk Management Committee held 4 meetings during the fiscal year ended December 31, 2013.

Human Resources and Corporate Governance Committee

The HRCG Committee acts as both our nominating and corporate governance committee and our compensation committee. The HRCG Committee has the authority to establish and implement our corporate governance practices, nominate individuals for election to the board of directors and evaluate and set compensation with respect to our directors and executive officers, among other things. The HRCG Committee is composed solely of independent directors as required by Section 162(m) and each member of the HRCG Committee meets the independence standards established under Section 10A(m)(3) of the Exchange Act and the rules recently adopted by Nasdaq pursuant to Rule 10C of the Exchange Act describing independence standards relating to members of compensation committees.

Our Board of Directors has adopted a written charter for the HRCG Committee that satisfies the applicable standards of Nasdaq Corporate Governance rules as to both compensation and nominating committee requirements. A copy of this charter is available on our website at http://ir.homestreet.com. Among other things, this charter calls upon HRCG Committee to:

- develop and recommend to the Board criteria for identifying and evaluating candidates to become Board members;
- identify, review the qualifications of, and recruit candidates for election to the Board;
- assess the contributions and independence of incumbent directors in determining whether to recommend them for reelection to the Board and appointment to one or more committees of the Board;
- function as a compensation committee for the purpose of Nasdaq Listing Rule 5605(d);

select and recommend to the Board director nominees for election or reelection to the Board at each special meeting of shareholders;

develop and recommend to the Board a set of corporate governance principles applicable to the corporation, including periodic review and reassessment of such principles;

make recommendations to the Board concerning the structure, composition and functioning of the Board and its committees;

oversee the evaluation of the Board and its committees;

review compensation of directors;

oversee HomeStreet s overall compensations structure, policies and programs, and assess whether HomeStreet s compensation structure establishes appropriate incentives for management and employees;

review and approve our incentive compensation arrangements to determine whether they encourage excessive risk taking and review the relationship between risk and management policies and compensation;

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- administer our equity incentive plans, pursuant to the authority delegated to it by the Board;

- set the corporate goals and objectives, if any, relevant to our executive officers compensation and evaluate our executive officers performance in light of those goals and objectives, if any;

- establish and provide oversight of compensation philosophy and programs; and

- oversee and make decisions regarding executive management salaries, incentive compensation, long-term compensation plans and equity plans for our employees and consultants.

The HRCG Committee held 9 meetings during the fiscal year ended December 31, 2013.

Interaction with Consultants

Pursuant to its charter, the HRCG Committee has the sole authority to retain, terminate, obtain advice from, oversee and compensate its outside advisors, including its compensation consultant. HomeStreet has provided appropriate funding to the HRCG Committee to do so.

In November 2012, the HRCG Committee retained Pearl Meyer & Partners (PM&P) as its independent executive compensation consultant. None of HomeStreet s management participated in the Committee s decision to retain PM&P. PM&P reports directly to the HRCG Committee and the HRCG Committee may replace PM&P or hire additional consultants at any time. PM&P attends meetings of the HRCG Committee, as requested, and communicates with the Chair of the HRCG Committee between meetings; however, the HRCG Committee makes all decisions regarding the compensation of HomeStreet s executive officers.

PM&P provides various executive compensation services to the HRCG Committee with respect to HomeStreet s executive officers and other key employees pursuant to a written consulting agreement with the HRCG Committee. The services PM&P provides under the agreement include advising the HRCG Committee on the principal aspects of HomeStreet s executive compensation program and evolving best practices, and providing market information and analysis regarding the competitiveness of HomeStreet s program design and HomeStreet s award values in relationship to its performance.

The HRCG Committee regularly reviews the services provided by its outside consultants and believes that PM&P is independent in providing executive compensation consulting services. The HRCG Committee conducted a specific review of HomeStreet s relationship with PM&P at the time of their initial engagement in 2012 with regard to among other things the requirements of Nasdaq rules related to the selection and assessment of conflicts of interest pertaining to compensation consultants, and determined that PM&P s work for the HRCG Committee did not raise any conflicts of interest.

The HRCG Committee continues to monitor the independence of its compensation consultant on a periodic basis.

Human Resources and Corporate Governance Committee Interlocks and Insider Participation

None of the members of the HRCG Committee served as an officer or employee of HomeStreet during fiscal year 2013 or any of the three previous years or has had any relationships or participated in any related party transactions that qualify as interlocking or cross-board memberships that are required to be disclosed under the rules of the SEC.

See also the Certain Relationships and Related Transactions section in this Proxy Statement.

Process for Recommending Candidates for Election to the Board of Directors

The HRCG Committee is responsible for, among other things, determining the criteria for membership to the Board and recommending candidates for election to the Board. It is the policy of the HRCG Committee to

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consider recommendations for candidates to the Board from shareholders. Shareholder recommendations for candidates to the Board must be directed in writing to HomeStreet, Inc., 601 Union Street, Suite 2000, Seattle, Washington 98101, Attention: General Counsel, and must include the candidate s name, home and business contact information, detailed biographical data and qualifications, information regarding any relationships between the candidate and HomeStreet within the last three years and evidence of the nominating person s ownership of HomeStreet s common stock. Such recommendations must also include a statement from the recommending shareholder in support of the candidate, particularly within the context of the criteria for Board membership, including issues of character, judgment, diversity, age, independence, background, skills, expertise, corporate experience, length of service, other commitments and the like, personal references, and an indication of the candidate s willingness to serve. Nominees for our Board of Director must also meet any approval requirements set forth by our regulators.

The HRCG Committee regularly reviews the current composition and size of the Board. The HRCG Committee s criteria and process for evaluating and identifying the candidates that it recommends to the full Board, for selection as director nominees are as follows:

In its evaluation of director candidates, including the members of the Board eligible for re-election, the HRCG Committee seeks to achieve a balance of knowledge, experience and capability on the Board and considers (1) the current size and composition of the Board and the needs of the Board and the respective committees of the Board, (2) such factors as issues of character, integrity, judgment, diversity of experience, independence, area of expertise, corporate experience, length of service, potential conflicts of interest, other commitments and the like, and (3) such other factors as the HRCG Committee may consider appropriate.

While we have not established specific minimum qualifications for director candidates, we believe that candidates and nominees must reflect a Board of Directors that is comprised of directors who: (1) are predominantly independent, (2) are of high integrity, (3) have broad, business-related knowledge and experience at the policy-making level in business or technology, including their understanding of HomeStreet s business in particular, (4) have qualifications that will increase the overall effectiveness of the Board and (5) meet other requirements as may be required by applicable rules, such as financial literacy or financial expertise with respect to audit committee members.

With regard to candidates who are properly recommended by shareholders or by other means, the HRCG Committee will review the qualifications of any such candidate, which review may, in the HRCG Committee s discretion, include interviewing references for the candidate, direct interviews with the candidate, requesting additional information to be shared with our regulators or other actions that the HRCG Committee deems necessary or proper.

In evaluating and identifying candidates, the HRCG Committee has the authority to retain and terminate any third-party search firm that is used to identify director candidates and has the authority to approve the fees and retention terms of any search firm.

The HRCG Committee will apply these same principles when evaluating Board candidates who may be elected initially by the full Board to fill vacancies or add additional directors prior to the special meeting of shareholders at which directors are elected.

After completing its review and evaluation of director candidates, the HRCG Committee recommends the director nominees to the full Board.

Attendance at meetings of Shareholders by the Board of Directors

Although HomeStreet does not have a formal policy regarding attendance by members of the Board at our meetings of shareholders, we encourage, but do not require, directors to attend. All of our directors attended our last annual meeting held in May 2013.

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Insider Trading Policy and Rule 10b5-1 Trading Plans

HomeStreet has an insider trading policy that prohibits, among other things, short sales, hedging of stock ownership positions and transactions involving derivative securities relating to our common stock. HomeStreet does not undertake any obligation to report Rule 10b5-1 trading plans that may be adopted by any of its officers and directors in the future, or to report any modifications or terminations of any publicly announced plan, except to the extent required by law.

Contacting the Board of Directors

Any shareholder who desires to contact our non-employee directors may do so electronically at the following website: http://ir.homestreet.com. Such shareholders who desire to contact our non-employee directors by mail may do so by writing HomeStreet s Corporate Secretary at HomeStreet, Inc., 601 Union Street, Suite 2000, Seattle, Washington 98101. Our General Counsel receives these communications unfiltered by HomeStreet, forwards communications to the appropriate committee of the Board or non-employee director, and facilitates an appropriate response. Please note that requests for investor relations materials should be sent to ir@homestreet.com.

Director Compensation

Current Non-Employee Director Compensation

Non-employee directors of HomeStreet, Inc. and HomeStreet Bank each earn an annual retainer of $40,000, while committee chairs each earn an additional annual retainer of $10,000 for each committee chaired, and the chairman of the HomeStreet, Inc. Board of Directors and HomeStreet Bank s lead director earn an additional annual retainer of $20,000 and $10,000 respectively. In addition, each director earns a fee of $1,000 per board meeting attended, and each committee member earns an additional fee of $500 per committee meeting attended (other than for short, telephonic committee meetings, for which the fee is $250 per meeting attended). Fifty percent of the annual retainer is paid in cash and the remaining fifty percent is paid in common stock under our 2014 Plan described below. All meeting fees are paid in cash.

We believe that our current overall non-employee director compensation program and the director compensation program in effect in 2013 are reasonable and appropriate based on our review of peer financial institution data and the data provided by our outside compensation consultants.

Directors Deferred Compensation Plan

In 1999, we adopted a plan to permit directors to defer all or a portion of their fees received for services as a director that would otherwise be payable in cash (with a minimum $2,500 deferral in a plan year for those who elect to make such deferrals). Interest earned on participant deferrals is equal to the average five year daily treasury rate for the quarter. A participant or his or her beneficiary will begin receiving a distribution of his or her deferrals for a particular plan year upon the earliest of (1) a future date specified by the participant, (2) the participant s death or (3) the date the participant ceases to be a director. The form of payment includes either a single lump sum payment or annual installment payments over a period of up to ten years. The participant has a limited ability to change these elections. This plan was suspended from 2008 through 2012 due to HomeStreet s financial condition. As a result, none of our directors were participants in this plan for the year ended December 31, 2012. When the plan was reintroduced on January 1, 2013, no directors participated in the plan for the fiscal year ended December 31, 2013.

2011 Director Equity Compensation Plan

Our shareholders approved the 2011 HomeStreet, Inc. Director Equity Compensation Plan, which was implemented upon the closing of HomeStreet s initial public offering in February 2012. This plan reserved

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168,000 shares of our common stock that has been available for stock awards to provide for compensation to our directors for their service on our Board. All such awards are fully vested immediately upon issuance. Following approval by HomeStreet s shareholders of the 2014 Plan at HomeStreet s annual meeting on May 29, 2014, the 2011 Plan was terminated and all shares remaining available for issuance under the 2011 Plan became available for issuance under the 2014 Plan. All future grants to directors will be made under the 2014 Plan.

Compensation for Employee Directors

Employee directors do not receive compensation for serving on our Board of Directors.

Director Compensation Table

The following table shows the compensation earned by, or paid to, our non-employee directors for 2013, including Gerhardt Morrison who retired from the board of directors at our 2013 special meeting. Employee directors are not compensated separately for their services as directors. This table includes all compensation earned or paid to all directors who were on our Board of Directors during any portion of 2013.

Name	Fees Earned or Paid in Cash ($)	Stock Awards[(2)(3)] ($)	Option Awards ($)	Non-Equity Incentive Plan Compensation ($)	Change in Pension Value and Non-qualified Deferred Compensation Earnings ($)	All Other Compensation ($)	Total ($)
Scott M. Boggs	52,583	25,833					78,416
David A. Ederer[(1)]	59,583	25,833					85,416
Victor H. Indiek	46,833	15,833					62,666
Thomas E. King	57,083	20,833					77,916
George Judd Kirk	61,833	25,833					87,666
Michael J. Malone	27,083	15,833					42,916
Douglas I. Smith	35,333	15,833					51,166
Bruce W. Williams	25,333	15,833					41,166
Gerhardt Morrison	9,167	4,166					13,333

(1) Directors are paid based on HomeStreet Bank compensation policy for individuals who serve as directors of both HomeStreet and HomeStreet Bank.

(2) The amounts shown represent the aggregate grant date fair value for the stock awards granted in fiscal 2013, as determined in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 718 (FASB ASC Topic 718). For details of all assumptions made in such calculations, see Note 17 to our financial statements.

(3)

Stock awards granted to non-employee directors in fiscal 2013 shares of common stock granted quarterly to our non-employee directors as part of their individual annual retainer.

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Key Employees

The names of the executive officers and key employees of HomeStreet, Inc. and its wholly owned subsidiary HomeStreet Bank, their ages, their positions with HomeStreet and HomeStreet Bank and other biographical information as of December 31, 2014, are set forth below. There are no family relationships among any of our directors or executive officers.

Name	Age	Position at HomeStreet, Inc.	Position at HomeStreet Bank
Mark K. Mason	55	Vice Chairman, Chief Executive Officer, President	Chairman, Chief Executive Officer, President
Richard W.H. Bennion	65	Executive Vice President	Executive Vice President, Residential Lending Director
Randy Daniels	53		Executive Vice President, Commercial Real Estate Lending Director
Rose Marie David	51		Executive Vice President, Single Family Lending Director
Godfrey B. Evans	60	Executive Vice President, Chief Administrative Officer, General Counsel and Corporate Secretary	Executive Vice President, Chief Administrative Officer, General Counsel, and Corporate Secretary
Susan Greenwald	56		Senior Vice President, Single Family Lending Operations Director
Jay C. Iseman	55	Executive Vice President, Chief Credit Officer	Executive Vice President, Chief Credit Officer
Paulette Lemon	58		Senior Vice President, Retail Banking Director
Jeffrey K. Newgard	43		Executive Vice President, Regional President Eastern Region
Cory D. Stewart	42	Executive Vice President, Chief Accounting Officer	Executive Vice President, Chief Accounting Officer
David H. Straus	68		Executive Vice President of Commercial Banking
Pamela J. Taylor	63		Senior Vice President, Human Resources Director
Darrell van Amen	49	Executive Vice President and Chief Investment Officer &	Executive Vice President and Chief Investment Officer &

	Treasurer	Treasurer

Richard W.H. Bennion, Executive Vice President of HomeStreet, Inc.; Executive Vice President and Residential Lending Director of HomeStreet Bank. Mr. Bennion joined HomeStreet in 1977 and currently serves as HomeStreet Bank s Executive Vice President and Residential Lending Director. He has been a member of the Fannie Mae Western Business Center Advisory Board since 2004, Chair of the Housing Partnership, a nonprofit organization, from 2001 to 2007 and a member of the University of Washington Milgard School of Business Advisory Board since 2004. Mr. Bennion is the past director of the Homebuilders Association of Tacoma-Pierce County, the past director and president of Puget Sound Mortgage Lenders Association and Washington Mortgage

Lenders Association. Mr. Bennion holds a bachelor s degree in History and China Regional Studies from the

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University of Washington and a masters of business administration from the University of Washington and is a graduate of the School of Mortgage Banking.

Randy Daniels, Executive Vice President, Commercial Real Estate Lending Director of HomeStreet Bank. Mr. Daniels joined HomeStreet Bank in September 2012. Prior to joining HomeStreet Bank, Mr. Daniels worked for Bank of America s Commercial Real Estate Group, serving as the Northwest Regional Executive from 2007 to 2012, Senior Vice President and Team Leader from 2001 to 2006 and Vice President and Relationship Manager from 1998 to 2001. During his fourteen years at Bank of America, Mr. Daniels provided capital and banking services to commercial real estate developers and investors in Washington, Oregon, and Western Canada. Prior to moving to the Pacific Northwest, Mr. Daniels worked as a Senior Asset Manager for the Archon Group (a Goldman Sachs/JE Robert joint venture) and in various other commercial real estate finance positions with banks and life insurance companies. He has been in the real estate industry for 27 years since graduating with an MBA from The American University in Washington, D.C. and an Economics degree from Boston University.

Rose Marie David, Executive Vice President, Single Family Lending Director. Ms. David joined HomeStreet Bank in March 2012, coming from MetLife Home Loans where she was Pacific Northwest Regional Sales leader from 2011 to 2012 and Non-Producing Seattle District Manager from 2006 to 2011. She was promoted to senior vice president and retail mortgage production leader of HomeStreet Bank in August 2012. As the executive vice president for Single Family Lending, Ms. David is responsible for growing the residential mortgage banking franchise and oversees mortgage production, operations and servicing. Prior to working at MetLife Home Loans, she owned a mortgage brokerage for several years, moving to First Horizon with the sale of her brokerage. Ms. David holds a B.A. in finance from the University of Utah.

Godfrey B. Evans, Executive Vice President, General Counsel, Chief Administrative Officer and Corporate Secretary of HomeStreet, Inc. and HomeStreet Bank. Mr. Evans joined HomeStreet in November 2009 and currently serves as the Executive Vice President, General Counsel and Chief Administrative Officer. From 2008 until joining HomeStreet, Mr. Evans was the managing director of the bankruptcy and restructuring practice group at Marshall & Stevens. Prior to this, Mr. Evans served as interim general counsel and chief restructuring officer for Chapeau, Inc. From 2002 to 2008, Mr. Evans served as a practicing attorney and as a project professional for Resources Global Professionals. Mr. Evans is admitted to practice law in California and in Washington, D.C. Mr. Evans holds a bachelor s degree and a master s degree in Architecture from the University of California, Berkeley and a law degree from Loyola Law School in Los Angeles.

Susan C. Greenwald, Senior Vice President, Single Family Lending Operations Director of HomeStreet Bank. Ms. Greenwald joined HomeStreet Bank in 1984 and currently serves as Senior Vice President, Single Family Lending Operations Director. Ms. Greenwald began her career at HomeStreet Bank as a secondary marketing assistant and has served in a number of lending-related management roles. Ms. Greenwald has also served as a director and treasurer of Common Ground and a legislative and legal affairs committee member of Seattle Mortgage Bankers Association. Ms. Greenwald has been a member of Seattle Mortgage Bankers since approximately 1987 and is an active participant on various industry committees. She holds a bachelor s degree in Economics from Southern Oregon College.

Jay C. Iseman, Executive Vice President and Chief Credit Officer of HomeStreet, Inc. and HomeStreet Bank. Mr. Iseman joined HomeStreet Bank in August 2009 and currently serves as the Executive Vice President and Chief Credit Officer of HomeStreet and HomeStreet Bank. Prior to his current position and since joining HomeStreet in 2009, Mr. Iseman has served as Senior Vice President, Credit Administration and Vice President, Special Assets Group and OREO Group Manager and Income Property Credit Administrator. Mr. Iseman served as senior vice president and senior portfolio manager of commercial special assets with Bank of America between 2008 and 2009.

Mr. Iseman holds a bachelor s degree in Business Administration and Economics from Seattle Pacific University and a certificate of advanced study in International Finance and Marketing from the American Graduate School of International Management.

Paulette Lemon, Senior Vice President, Retail Banking Director of HomeStreet Bank. Ms. Lemon joined HomeStreet Bank in 1985 and since 2001 has served as Senior Vice President, Retail Banking Director and as Vice President, Retail Bank Operations Manager prior to 2001. She holds a bachelor s degree in Business Administration from Western Washington University and she has completed graduate work in banking at National School of Banking through Fairfield University. She is an associate member for the Corporate Council of the Arts.

Jeffrey K. Newgard, Executive Vice President, Regional President-Eastern Region. Mr. Newgard is responsible for the management and strategic expansion throughout central and eastern Washington. Mr. Newgard joined HomeStreet in November 2013 with HomeStreet s acquisition of Yakima National Bank (YNB), where he served as President and CEO from 2004 to 2013. Mr. Newgard, who has held a number of leadership positions in regional and community banking since 1998, is a graduate of the Graduate School of Banking (Colorado) and holds a Masters of Business Administration from Washington State University and a Bachelor of Arts from Walla Walla College.

Cory D. Stewart, Executive Vice President and Principal Accounting Officer of HomeStreet, Inc. and HomeStreet Bank. Mr. Stewart joined HomeStreet in March 2012 serving as Senior Vice President and Controller of HomeStreet until assuming his current position with HomeStreet on October 15, 2012. Mr. Stewart was previously the director of finance at Volt Information Sciences, Inc. from February 2009 to March 2012. Prior to that, Mr. Stewart spent over seven years from October 2001 to February 2009 in various finance, accounting and enterprise risk management roles at Washington Mutual, Inc. and is a licensed CPA in the state of Washington and a CFA charterholder since 2002. He graduated cum laude with a bachelor s degree in accounting and an MBA from the University of Utah.

David H. Straus, Executive Vice President of Commercial Banking. Mr. Straus, who has more than 40 years of banking experience, joined HomeStreet in November 2013. Prior to joining HomeStreet Bank, Mr. Straus founded Fortune Bank, a community bank headquartered in Seattle in 2006. Prior to that, Mr. Straus held various executive leadership positions including President of Business Banking for Washington at Wells Fargo from 2003 to 2006 and President and Chief Operating Officer at Pacific Northwest Bank, a $3 billion commercial bank headquartered in Seattle from 2002 to 2003. Prior to his experience at Pacific Northwest Bank and Wells Fargo, Mr. Straus also served in multiple leadership roles at First Interstate and Old National Bank/U.S. Bancorp. Mr. Straus is a past Chairman of the Washington Bankers Association and formerly served as a member of the board of United Way of King County. He is the past board chairman of Pioneer Human Services, past president of Risk Management Associates and past board member of the Boys and Girls Club of King County. Mr. Straus is a graduate of University of Denver and received a Master of Business Administration from the University of Arizona. In addition, he is a graduate of Pacific Coast Banking School and Leadership Tomorrow of King County.

Pamela J. Taylor, Senior Vice President, Human Resources Director of HomeStreet Bank. Ms. Taylor joined HomeStreet Bank in 1998 as Senior Vice President and Human Resources Director. She holds a senior professional human resource certification from the Society for Human Resource Management and a bachelor s degree in English from California State University, Northridge. Prior to joining HomeStreet, Ms. Taylor served as Executive Vice President, Human Resource Director for MetLife Capital Corporation from 1986 to 1998.

Darrell van Amen, Executive Vice President, Chief Investment Officer and Treasurer of HomeStreet, Inc. and HomeStreet Bank. Mr. van Amen joined HomeStreet Bank in 2003 and currently serves as Senior Vice President and Treasurer of HomeStreet Bank as well as Executive Vice President and Principal Investment Officer of HomeStreet, a position he assumed in 2012. Prior to his current position with HomeStreet Bank, he was the Vice President, Asset/Liability Manager and Treasurer of HomeStreet Bank and HomeStreet from 2003 to 2010. He holds a bachelor s degree in Economics from Weber State University and a master s degree in Economics from Claremont Graduate University.

The current terms of the executive officers will expire at such time as their successors are elected.

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Executive Compensation

Note: HomeStreet is an Emerging Growth Company, as defined in the Jumpstart Our Business Startups Act, or JOBS Act , and are eligible to take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not Emerging Growth Companies. These include, but are not limited to, reduced disclosure obligations regarding executive compensation in our proxy statements, including the requirement to include a specific form of Compensation Discussion and Analysis, as well as exemptions from certain requirements under the Dodd-Frank Act, including the requirement to hold a non-binding advisory vote on executive compensation and the requirement to obtain stockholder approval of any golden parachute payments not previously approved. We have elected to comply with the scaled disclosure requirements applicable to Emerging Growth Companies.

Compensation Program Objectives and Philosophy

We believe it is critical to HomeStreet s success to attract, retain and incentivize highly qualified executives and to promote a high-performance culture. We have therefore adopted compensation policies that we believe reward executives for achieving and maintaining short- and long-term performance that builds shareholder value. The principles underlying our executive compensation policies and programs include:

- provide levels of compensation competitive with those offered by our peers and competitors and consistent with our level of performance;
- attract and retain the most qualified and experienced individuals available to further our success;
- align the interests of executives and shareholders by linking a significant portion of an executive s compensation to HomeStreet s short- and long-term financial performance; and
- reward and motivate appropriate executive behavior that produces strong financial results while managing risks and promoting regulatory compliance

This philosophy pertains to executive compensation as well as employee compensation at all other levels throughout our organization.

Notwithstanding our overall compensation objectives, incentive compensation opportunities for specific individuals may vary based on a number of factors, including competing compensation programs available for similar positions, scope of duties, tenure, specialized experience, institutional knowledge and performance. We believe a portion of each executive s potential compensation should be tied to individual performance as evaluated by the HRCG Committee and the Chief Executive Officer (other than for our Chief Executive Officer, whose performance is evaluated solely by the HRCG Committee). In addition, we believe a meaningful portion of each executive s total compensation opportunity should be linked to our long-term company-wide goals of safety and soundness, increased shareholder value and risk management. Actual compensation in a given year will vary from the target compensation levels based primarily on the attainment of operating goals, HomeStreet s overall performance, and changes in shareholder value. In some instances, the amount and structure of compensation results from arm s-length negotiations with executives, which terms reflect an increasingly competitive market for proven expertise and managerial talent. We design our compensation programs and make individual pay decisions and adjustments in the context of this philosophy.

Decision Making and Policy Making

The HRCG Committee is responsible for setting the policies and compensation levels for our directors and Named Executive Officers and for determining the compensation of our Chief Executive Officer. See Corporate Governance-Human Resources and Corporate Governance Committee. Certain members of senior management, including the Chief Executive Officer, Chief Human Resources Officer, General Counsel and Risk and Regulatory Oversight Director regularly participate in the HRCG Committee process for compensating Named

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Executive Officers. Executive officers in attendance may provide their insights and suggestions, but only independent committee members may vote on decisions regarding executive compensation, and executive officers are excluded from deliberations regarding their own compensation. In particular, the Chief Executive Officer provides recommendations relating to other executive officers; however, after the HRCG Committee reviews and discusses the Chief Executive Officer s compensation with him, final deliberations and all votes regarding his compensation are made in executive session, without the Chief Executive Officer present. The committee also ordinarily reviews recommendations and input from compensation consultants regarding executive officers compensation. Participation levels in all incentive programs for our Chief Executive Officer and our two other most highly compensated executive officers (collectively referred to as the Named Executive Officers) are established by the HRCG Committee at the beginning of each fiscal year. These participation levels may be increased or decreased after the beginning of a fiscal year at the discretion of the committee. However, it has been the practice of the HRCG Committee to do so only in the event of a material change in an executive officer s responsibilities. In establishing incentive plan participation levels, the HRCG Committee considers market data relating to compensation practice of our peers as well as internal parity. We do not follow formal guidelines for establishing internal parity, but we do seek to correlate organizational responsibility with participation level.

Summary Components of Compensation

Currently, the compensation package for our Named Executive Officers is comprised of base salary, an annual short-term cash incentive plan, equity opportunity awards, a 401(k) plan, health and welfare benefits plan and perquisites.

Base Salary

Base salaries are provided for each Named Executive Officer for performing specific job responsibilities, giving consideration to the knowledge, skills, abilities and experience of each executive as well as competitive market pay. Mr. Mason s base compensation for 2013 was $500,000 after being reduced from $600,000 on March 26, 2012 in accordance with his employment agreement following HomeStreet Bank s initial public offering. Mr. Bennion s base salary is $203,000 and has not been increased since January 2007. Ms. David earns a base salary of $200,000 which was effective August 1, 2013 concurrent with her promotion to Executive Vice President, Single Family Lending Director.

Short-Term Incentive Compensation

HomeStreet maintains the Management/Support Performance-Based Annual Incentive Plan (the Annual Incentive Plan) to provide employees with incentive awards upon the attainment of pre-defined annual performance goals that are designed to align eligible employees with the short-term objectives of HomeStreet. Mr. Mason participates in the Annual Incentive Plan. Mr. Bennion began participating in the Annual Incentive Plan in the second half of 2013 following his transition to the role of Executive Vice President, Residential Lending Director.

Each eligible participant in the Annual Incentive Plan is assigned target and maximum incentive award opportunities, expressed as a percentage of base salary. The specific level and range of opportunities varies by individual, and reflects each participant s past and expected future contributions to the success of HomeStreet, as well as market-competitive opportunities for employees with similar skills, experience and responsibilities at companies comparable to HomeStreet. The 2013 target incentive opportunity was 75% of base salary for Mr. Mason, 40% for Mr. Bennion, (prorated by 50% because his participation was limited to the second half of 2013) and 25% to 40% for other executive officer participants. The maximum incentive opportunity in 2013 was 150% of base salary for Mr. Mason (200% of his target of 75%) and 80% of base salary for Mr. Bennion (prorated by 50% because his participation was limited to the second half of 2013) and 50% to 80% for the other executive officer participants.

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Pre-defined corporate, department and/or individual performance goals are assigned to each participant and weighted according to the participant s level of responsibility and ability to influence overall corporate performance outcomes. Mr. Mason s 2013 incentive opportunity was weighted 80% to corporate goals and 20% to individual goals. The 2013 weighting for Mr. Bennion was 20% to corporate goals, 60% to business unit goals and 20% to individual goals. Corporate performance goals are established each year by the HRCG Committee, with input from our Chief Executive Officer. Individual goals for Mr. Mason are established by the HRCG Committee, and department and individual goals for the other executive officer participants are established by Mr. Mason and approved by the HRCG Committee.

2013 Performance Goals and Actual Results for Mr. Mason: The corporate performance goals (80% of total) established for Mr. Mason included threshold, target and stretch performance goals for net income (70% weight), classified assets (5% weight), non-single family loan origination (10% weight), net interest margin (10% weight) and core deposit growth (5% weight). The individual goals (20% of total) established for Mr. Mason were related to growth, acquisitions and revenue diversification. Individual goals for Mr. Mason were not assigned specific weights in 2013. The following table summarizes Mr. Mason s 2013 corporate performance goals, as established by the HRCG Committee, and actual results for 2013:

		Corporate Performance Goals				
Corporate Performance Area	**Weight**	**Threshold (50% of Target Payout)**	**Target**	**Maximum (200% of Target Payout)**	**Actual Result[1]**	**Payout**
Net Income (millions)	70%	$ 24.9	$ 37.7	$ 64.5	26.7[2]	$ 119,880
Classified Assets (%)	5%	2.82%	2.36%	1.72%	1.61%	$ 30,000
Non-Single Family Loan Originations (thousands)	10%	$ 467,500	$ 621,000	$ 774,500	$ 575,859	$ 25,589
Net Interest Margin (%)	10%	3.30%	3.41%	3.53%	3.25%	$
Core Deposit Growth (%)	5%	30.10%	34.60%	39.20%	31.00%	$ 9,000

		Individual Performance Goals						
Individual Performance Area	**Weight**	**Far Below Target**	**Below Target**	**Target**	**Exceeds Target**	**Far Exceeds Target**	**Actual Result**	**Payout**
Individual: (20% Total Weight)	100%	0.00%	7.50%	15.00%	22.5%	30.00%	15%	$ 75,000

(1) Actual results for the purpose of calculating Mr. Mason s performance goals excluded activities related to completed and uncompleted acquisitions during 2013.

(2) Net Income for the purpose of Mr. Mason s compensation plan excluded $3.4 million of merger and acquisition expenses related to completed and uncompleted acquisitions

The HRCG Committee determined that Mr. Mason performed at target for his individual goals, which is 20% of his total incentive. Therefore, Mr. Mason received a payout of $75,000 for his individual goals. With respect to the corporate performance goals for Mr. Mason, net income was below target but above threshold, classified assets total was at maximum achievement, net interest margin was below threshold, non-single family loan originations were below target but above threshold and core deposits were below target but above threshold. Net income excluded expenses for acquisitions during the year. When combined with the 2013 corporate performance results outlined above, Mr. Mason earned a total cash incentive under the Annual Incentive Plan equal to $259,469, or 69% of target.

2013 Performance Goals and Actual Results for Mr. Bennion. Mr. Bennion served as Executive Vice President, Single Family Lending Director until June 30, 2013 at which time he transitioned to a new role as Executive Vice President, Residential Lending Director. In this new role, Mr. Bennion continues to oversee Construction Lending and Windermere Mortgage Services and is supporting Single Family Lending s growth by

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serving as a key liaison between HomeStreet Bank and the mortgage industry leaders and associations. Mr. Bennion participated in an individualized annual incentive arrangement from January 1, 2013 through June 30, 2013. Approximately 75% of Mr. Bennion s incentive opportunity was tied to single family permanent and residential construction loan production as well as single family net income with an annual target of $3.6 billion for loan production and $39.1 million for net income. Mr. Bennion was paid 0.3 basis points on total loan production and 3.5 basis points on single family net income. Another 15% of the total incentive opportunity was based on sound risk management through an assessment of loan quality with a target payout of $53,500. Mr. Bennion was paid for achievement of specific individual performance goals, which was approximately 10% of the total opportunity and had a target payout of $35,500 annually. Total target incentive payout was established at 175% of base salary. Mr. Bennion received $353,380 under this incentive plan.

Mr. Bennion became a participant in the Annual Incentive Plan on July 1, 2013 which had a target incentive payout of 40% of base salary, pro-rated for 2013 to account for the fact that he only participated in the plan for six months of the year. Mr. Bennion s incentive payout is based on the achievement of the corporate net income target of $37.7 million, business unit goals related to loan production in Residential Construction, Windermere Mortgage Services and Hawaii and achievement of individual objectives relating to his liaison role with the mortgage industry. Mr. Bennion received $44,728 under this incentive plan. In total, Mr. Bennion s incentive payout for the 2013 incentive plan year was $398,108.

2013 Performance Goals and Actual Results for Rose Marie David. Ms. David served as Senior Vice President, Retail Mortgage Production Leader until August 1, 2013 at which time she was promoted to Executive Vice President, Single Family Lending Director, replacing Mr. Bennion. Ms. David s incentive compensation plan prior to August 1, 2013 was based on three components: (i) payments received for production on single family loan transactions, referred to as Monthly Override ; (ii) profitability incentive; and (iii) shares of restricted stock. She received a Monthly Override of 2.5 basis points on refinancing transactions and 3.5 basis points on purchase transactions and a quarterly profitability incentive of 2.5% of annual regional net operating income provided that a profitability threshold of 50 basis points on production was achieved. As part of her incentive compensation, Ms. David received 10% of her total incentive compensation in equity in the form of HomeStreet stock. She received a guaranteed cash compensation for 2013, which was the first full year of her employment with HomeStreet in the amount of $600,000 and her salary plus production override and profitability incentive was capped at $110,000 a month. She received $555,750 under this plan.

Ms. David s incentive compensation plan changed as of August 1, 2013 when she was promoted to her new position as Executive Vice President, Single Family Lending Director. The plan consists of two components, volume and profitability, with each weighing 50% of the total incentive (Ms. David no longer receives shares of restricted stock as part of her annual incentive plan). The quarterly volume incentive is paid on achievement relative to five (5) tiers of achievement. The lowest tier paid out 1.750 basis points on purchase loans and 1.000 basis points on refinance loans for the first $300 million of volume. The highest tier pays out on a declining basis at 1.000 basis point of purchase loans and .500 basis points on refinance loans for volume over $975,000,000. The quarterly profitability incentive paid 1.375% of HomeStreet mortgage banking segment pre-tax income (post allocations and excluding income and expense for Windermere Mortgage Services). In addition to Ms. David s cash incentive compensation, she received special grant of 9,495 shares of restricted stock with a fair market value of $217,056 in connection with her promotion in August 2013. Ms. David also received a one-time cash bonus in the amount of $100,000 in recognition of her new Executive Vice President role as well as her exceptional performance through the first half of 2013. Ms. David received a total of $296,773 under the cash incentive plan for a total incentive payout annually (including stock and one-time cash bonus) of $713,829.

Incentive Plan Risk Management

The HRCG Committee regularly reviews our incentive compensation arrangements for all executives and non-executive employees who, either individually or as part of a group, have the ability to expose HomeStreet to material amounts of risk (covered employees under the interagency Guidance on Sound Incentive

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Compensation Policies). In addition to rigorous company-wide internal controls processes, the HRCG Committee takes the following measures to ensure that incentive compensation arrangements for covered employees do not encourage participants to expose HomeStreet to unnecessary or excessive risks:

- Annual HRCG Committee approval of incentive plan payouts;
- HRCG Committee approval of any material changes to plan terms;
- HRCG Committee oversight of annual incentive plan risk assessments;
- Allowance for HRCG Committee discretion, if necessary, to address extraordinary events or circumstances;
- Caps and/or deferral mechanisms to avoid run-away short-term incentive opportunities;
- Balanced performance metrics, including safety and soundness goals;
- Delivery of a meaningful portion of executive compensation in the form of equity instruments that vest over multiple years, encouraging a natural interest in the long-term financial health of HomeStreet;
- Clear communication and transparency in the establishment, administration and monitoring of incentive arrangements

Clawback Provisions

Each of HomeStreet s incentive compensation arrangements includes provision for the reduction or recovery of awards if the HRCG Committee determines that materially inaccurate financial information was used in determining award payouts or if it was determined that the recipient s activities exposed HomeStreet to imprudent risks. Should it be necessary, the HRCG Committee will determine the amount of any award that was overpaid as a result of inaccurate information and will send the participant a recovery notice specifying the overpayment amount and the terms for repayment.

In addition, Section 304 of the Sarbanes Oxley Act of 2002 provides a basis to recover incentive awards in certain circumstances. If we are required to restate our financials due to noncompliance with any financial reporting requirements as a result of misconduct, our Chief Executive Officer, Chief Accounting Officer and Chief Investment Officer must reimburse HomeStreet for: (1) any bonus or other incentive or equity based compensation received during the 12 months following the first public issuance of the non-complying document, and (2) any profits the executive realized from sales of HomeStreet securities during that period.

Based on the findings from its ongoing monitoring and oversight efforts, the HRCG Committee has determined that none of our incentive compensation arrangements expose HomeStreet to unnecessary or excessive risks that could materially threaten the value of HomeStreet.

Equity Incentive Compensation

2014 Equity Incentive Plan

HomeStreet compensates directors, executive officers and other employees under the HomeStreet, Inc., 2014 Equity Incentive Plan, which we refer to in this joint proxy statement as the 2014 Plan. The 2014 Plan was approved by HomeStreet s shareholders at our annual shareholder meeting on May 29, 2014. The 2014 Plan replaces the HomeStreet, Inc., 2010 Equity Incentive Plan, or 2010 Plan, and the 2011 Director Equity Compensation Plan, or 2011 Plan . In addition, HomeStreet has awards outstanding under certain other equity incentive compensation arrangements as described below.

Under the 2014 Plan, HomeStreet may grant incentive stock options, non-qualified stock options, stock appreciation rights, restricted stock awards, restricted stock units, unrestricted stock, performance share awards and performance compensation awards. The 2014 Plan provides for the issuance of up to 900,000 shares of

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HomeStreet common stock, including 249,657 shares of common stock that remained available for issuance under the 2010 Plan and the 2011 Plan at the time the 2014 Plan was approved by HomeStreet s shareholders. No future grants will be made under the 2010 Plan or the 2011 Plan, and all unissued and unreserved shares of common stock under each such plan was rolled into and became available for issuance under the 2014 Plan upon the approval of the 2014 Plan by HomeStreet s shareholders on May 29, 2014. Any awards outstanding under the 2010 Plan will remain outstanding and shares of common stock underlying such awards will remain in the pool for the 2010 Plan until the award is exercised or terminated.

Under the 2014 Plan, the maximum aggregate number of shares of common stock subject to awards granted to any individual cannot exceed 100,000 shares of common stock during any calendar year. Each participant is also subject to a separate 50,000 share limit for full-value restricted stock awards or unrestricted stock grants. No participant who is a non-employee director shall be granted awards of common stock exceeding an aggregate value of $200,000 during any calendar year.

As of December 31, 2014 the per share closing price of HomeStreet s common stock on the Nasdaq Global Select Market was $17.41. Based on that value, the 900,000 shares of common stock available for grants under the 2014 Plan would have had a total value of $15,669,000.

Eligibility

All employees, directors, and consultants are potentially eligible to receive awards under the 2014 Plan. As of December 31, 2014, approximately 24 employees participate in the 2014 Plan, including 13 executive officers. All ten (10) of HomeStreet s current directors participate in the 2014 Plan.

Plan Administration

The 2014 Plan is administered by the HRCG Committee. Subject to limits outlined in the 2014 Plan, the HRCG Committee determines which individuals will receive awards, the number of shares or units to be granted, the exercise or purchase price for awards, the vesting schedule for each award, any performance criteria for an award, and the maximum term of each award. The HRCG Committee has the power to adopt any rules deemed necessary or desirable for the administration of the 2014 Plan, as well as the exclusive discretionary authority to construe, interpret and make all other determinations necessary or advisable for the administration of the 2014 Plan. The HRCG Committee also may modify the purchase price or the exercise price of any outstanding award, but if the modification effects a repricing, shareholder approval shall be required before the repricing is effective. The HRCG Committee also may not replace or cash out underwater stock options or stock appreciation rights without prior shareholder approval. The HRCG Committee may exercise its discretion to reduce (but not increase) any performance award. All decisions made by the HRCG Committee in connection with the 2014 Plan will be final and binding unless found by a court to be arbitrary and capricious.

Awards to Participants

Awards granted under the 2014 Plan may consist of incentive stock options, non-qualified stock options, stock appreciation rights, restricted stock awards, restricted stock units, unrestricted stock grants, performance share awards and performance compensation awards.

Stock Options. The 2014 Plan provides for the grant of incentive stock options (commonly referred to as ISOs) to employees and non-qualified stock options (commonly referred to as NSOs) to employees, directors and consultants. The HRCG Committee determines the terms of options, such as price, expiration date and other material conditions, provided that ISOs are subject to statutory limitations. The HRCG Committee determines the exercise price for a stock option, within the terms and conditions of the 2014 Plan and applicable law. The exercise price of a nonqualified stock option may not be less than 100% of the fair market value of our common stock on the date of grant unless in substitution for another option. The exercise price of an ISO may not be less than 100% (or 110% in the case of a recipient who is also a 10% shareholder) of the fair market value of our common stock on the date of grant. An option may be exercised by payment of the exercise price in cash, by a cashless exercise established with a broker, by reduction in the number of shares issued or other methods acceptable to the HRCG Committee.

Options granted under the 2014 Plan vest at the rate specified by the HRCG Committee, with the vesting schedule or performance conditions for each stock option to be set forth in the stock option agreement for such option grant. Generally, the HRCG Committee determines the term of stock options granted under the 2014 Plan, up to a maximum term of 10 years.

After termination of an optionee s service relationship with HomeStreet, the optionee may exercise the vested portion of each option for the period of time stated in the option agreement to which such option relates, provided that all outstanding options shall terminate immediately if the optionee s service relationship is terminated for cause. The HRCG Committee also has the discretion to permit exercise of the unvested portion of an option in the event of voluntary resignation or retirement. Generally, if termination is due to disability, the vested portion of each option will remain exercisable for one year following the date of disability, and in the event of death of an optionee, the vested portion of each option will remain exercisable by such optionee s beneficiary for one year. In all other cases other than termination for cause, the vested portion of each option will generally remain exercisable for three months following termination of the service relationship. However, an option may not be exercised later than its expiration date even if the relevant post-termination exercise period has not yet come to an end.

Notwithstanding the above, in the event of a change in control of HomeStreet, followed by termination without cause or constructive termination of an optionee within 12 months of the change in control, the 2014 Plan provides that all outstanding stock options under the plan will become 100% vested and exercisable.

Stock Appreciation Rights. Stock appreciation rights provide for a payment or payments, in cash or shares of common stock, to the participant based upon the difference between the fair market value of our common stock on the date of exercise and the stated exercise price. The exercise price of a stock appreciation right may not be less than 100% of the fair market value of our common stock on the date of grant of the stock appreciation right. Stock appreciation rights are otherwise generally subject to the same terms and limitations as described above for stock options, including vesting and acceleration upon termination following a change in control.

Restricted Stock Awards. A restricted stock award is a grant of shares or an offer by us to sell shares of our common stock subject to a risk of forfeiture and/or a right of repurchase by us upon the termination of the participant s service relationship with HomeStreet on such terms (including price and timing) as may be determined by the HRCG Committee. This risk of forfeiture and/or right of repurchase may lapse according to vesting conditions, which may include performance conditions, a time-based schedule or a combination thereof, to be determined in each case by the HRCG Committee. The holder of restricted stock has the rights of a shareholder, including voting and dividend rights, but dividends on restricted stock will be withheld and distributed upon the release of restrictions. If the stock is forfeited, the holder will have no right to the dividends. In the event of death or disability of a holder of restricted stock subject to vesting other than monthly vesting, the risk of forfeiture and/or our right to repurchase such shares shall lapse with respect to a pro-rata portion of the shares of restricted stock equal to the percentage of the vesting period that has elapsed. The HRCG Committee also has the discretion to waive all or a portion of the risk of forfeiture and/or our right to repurchase shares of restricted stock in the event of a participant s voluntary resignation or retirement. In the event of a change in control followed by termination without cause or constructive termination of the participant within 12 months, the restrictions on such participant s restricted stock will lapse.

Restricted Stock Units. Restricted stock units represent the right to receive, without payment to HomeStreet, an amount of shares of our common stock equal to the number of shares underlying the restricted stock units, or the cash equivalent. The HRCG Committee may, at its discretion, impose vesting conditions, which may include performance conditions, a time-based vesting schedule or a combination thereof, on the exercise of such units. The holder of restricted stock units does not have voting rights, but may be credited with dividend equivalents which will be withheld and distributed upon the release of restrictions. If the units are forfeited, the holder will have no right to the dividends. A participant s restricted stock units generally terminate in the event the participant s service relationship terminates prior to payment with respect to the units. However, in the event of death or disability of a holder of restricted stock units that are subject to vesting other than monthly vesting, the holder will receive payment for a pro-rata percentage of the unvested units equal to the percentage of the vesting period that has elapsed. The HRCG Committee also has the discretion to make payment with respect to all or a portion of the unvested restricted stock units held by a participant in the event of such participant s voluntary resignation or retirement. In the event of a change in control followed by termination without cause or constructive termination of the participant within 12 months, such participant s restricted stock units that were outstanding on the date of termination will be cancelled and such participant will receive a cash payment equal to the product of the number of restricted stock units and the fair market value of a share of our common stock on the date of termination.

Unrestricted Stock Grants. The HRCG Committee also has the discretion under the 2014 Plan to issue grants of fully vested shares of common stock (valued at fair market value as of the date of payment), in such amounts and subject to such terms and conditions established by the HRCG Committee.

Performance Shares/Compensation. A performance share award entitles a participant to receive all or part of a specified number of hypothetical shares (or the value of stock-denominated units) if specified performance objectives, as determined by the HRCG Committee, are satisfied during a specified award period. The payout under a performance share award is the product of (i) the target number of performance shares subject to award; (ii) the performance percentage; and (iii) for stock units, the fair market value of a share on the date the award is paid or becomes payable to the participant.

Performance Awards are similar to performance shares, except that the value is based on a fixed dollar value or formula specified by the HRCG Committee, rather than the fair market value of a share on the date the award is paid or payable (as with performance shares). The HRCG Committee may designate any award other than an option, including a cash bonus, as a performance award. The maximum value of performance shares that may be earned by a participant for any single award period of one year or longer may not exceed 50,000 shares and the value of performance compensation shall not exceed $3 million.

Within the first 90 days of a performance period of at least one year, the HRCG Committee chooses performance goals for the performance shares or award at the time of grant based on one or more of the following criteria: (a) net earnings or net income (before or after taxes); (b) basic or diluted earnings per share (before or after taxes); (c) net revenue or net revenue growth; (d) gross revenue; (e) gross profit or gross profit growth; (f) net operating profit (before or after taxes); (g) return on assets, capital, invested capital, equity, average equity or sales; (h) cash flow (including, but not limited to, operating cash flow, free cash flow, and cash flow return on capital); (i) earnings before or after taxes, interest, depreciation and/or amortization; (j) gross or operating margins; (k) improvements in capital structure; (l) budget and expense management; (m) productivity ratios; (n) economic value added or other value added measurements; (o) share price (including, but not limited to, growth measures and total shareholder return); (p) expense targets; (q) margins; (r) operating efficiency; (s) working capital targets; (t) enterprise value; (u) safety record; (v) completion of acquisitions or business expansion; (w) asset quality; (x) efficiency ratio; (y) loan growth; (z) deposit growth, and (aa) net interest margin. At the end of the award period for performance shares or performance units, the HRCG Committee determines the extent to which the applicable performance objectives were met during the award period. A participant shall be eligible for payment only if he or she is an employee, director or consultant on the last day of the performance period and only to the extent the performance goal are achieved. The Committee may exercise negative discretion to reduce a performance award in its discretion. Performance shares and awards may be settled in cash, shares of our common stock, other securities, other awards, other property or any combination thereof, as determined by the HRCG Committee.

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In the event of a change in control followed by termination without cause or constructive termination of the participant within 12 months, the participant s performance share or award is to be paid out with a performance percentage of 100%.

Amendment and Termination of Plan

The Board may amend or terminate the 2014 Plan in any respect at any time, except that shareholder approval will be required for certain material amendments to the 2014 Plan.

Term of the Plan

The term of the 2014 Plan is 10 years from the effective date of the plan.

Amounts of Awards

Since specific grants under the 2014 Plan are discretionary, the actual number of awards to be paid under the 2014 Plan as proposed herein cannot be determined at this time. The awards earned by our named executive officers in the two-year period prior to 2014 under the 2010 Plan are disclosed in this Proxy Statement under our Summary Compensation Table .

Taxation of Awards

Performance unit and performance share awards and stock appreciation rights are taxable as ordinary income only when and if paid. There is no taxation on stock options when granted. When a non-statutory option is exercised, the difference between the exercise price and the stock price on the date of exercise is taxable as ordinary income, and HomeStreet is entitled to a tax deduction in the same amount, while any subsequent increase in the stock price is taxable as a capital gain. For an incentive stock option, there is no taxation on exercise of the option and all the gain is taxed on disposition of the stock by the participant as capital gain, so long as the participant holds the stock for at least one year after exercise and two years after the date of grant. If such holding period requirements are not met, the option exercise will be retroactively treated as the exercise of a non-statutory option for tax purposes and the participant will incur ordinary income tax. The exercise of an incentive stock option may also cause the participant to be subject to the alternative minimum tax upon exercise, which would require the participant to include the difference between the exercise price and the value of the stock on the date of exercise in the participant s taxable income for the purposes of calculating the amount of alternative minimum tax that would be owed. HomeStreet is not allowed a tax deduction for an incentive stock option unless the participant sells the stock after exercise in a disqualifying disposition. Restricted stock is taxable on its value at the date it vests, unless the participant made an election to pay tax on its value at the time it was granted. Unrestricted stock grants are taxable at their value on the date granted. No income will generally be recognized in connection with the grant of a restricted stock unit. A participant is subject to withholding under the Federal Insurance Contributions Act on the value of a restricted stock unit at the time the restricted stock unit becomes vested. The value of the stock and/or any cash received should generally be taxable to the participant as ordinary income and deductible by HomeStreet at the time of settlement of the restricted stock unit, and any subsequent change in the stock value upon resale of the stock will be treated as a capital gain or loss.

2010 Equity Incentive Plan

HomeStreet s shareholders approved the 2010 Plan on January 20, 2010. This plan authorizes the grant of nonqualified and incentive stock options, stock appreciation rights (SARs), restricted stock awards, restricted stock units, stock bonus awards and cash incentive bonus awards. The 2010 Plan became effective upon the closing of our initial public offering in February 2012 and was supplanted (other than as to awards previously outstanding) upon the adoption of the 2014 Plan. The purpose of the 2010 Plan was to give us a competitive position in attracting, retaining and motivating officers, employees, directors and consultants and to provide a means whereby officers, employees, directors and consultants can acquire common stock or earn incentive compensation based on the value of our common stock, thereby strengthening their commitment to HomeStreet and promoting an identity of interest with our shareholders. We do not believe that any element of the 2010 Plan encourages excessive or unnecessary risks to HomeStreet s assets or reputation. The 2010 Plan is administered by the HRCG Committee. Upon the adoption of the 2014 Plan, the 2010 Plan was terminated other than as to awards previously outstanding and not exercised or vested, and the 100,752 shares authorized under that plan but remaining unissued were consolidated into the 2014 Plan.

Equity Grants Effective upon Completion of our Initial Public Offering

In connection with the closing of our initial public offering in February 2012, HomeStreet awarded stock options and restricted stock awards to our executive officers and senior managers, in order to maintain the existing ownership percentage targets for those executive officers and senior managers. These grants were allocated 25% to restricted stock awards and 75% to stock options; the stock options vest ratably on the first, second and third anniversaries of the completion of the initial public offering while the restricted stock grants vest upon the occurrence of certain events based upon an increase in the price of our common stock in comparison to the price at which the initial public offering was consummated.

Other Benefit Plans

401(k) Savings Plan

Our 40l(k) Savings Plan (the 401(k) Plan) also includes an account holding employer stock from our prior ESOP which merged into the 401(k) plan. Effective January 1, 2013, the employer matching structure and vesting qualified the 401(k) Plan as a Safe Harbor Plan under the Small Business Job Protection Act of 1996. The waiting period for receiving HomeStreet match was changed from six months to the pay period following an employee s hire date and eligible compensation for HomeStreet match changed to include all compensation subject to IRS limits. All employees, including our Named Executive Officers, are eligible to make pre-tax 401(k) Plan contributions and may be eligible to receive a discretionary matching contribution. Any such discretionary matching contribution matches a participant s pre-tax 40l(k) Plan contributions at a percentage we determine of the first 6.0% of eligible compensation (subject to IRS limits). Employees are eligible to participate in the 401(k) Plan if they meet the applicable service requirements and are at least 18 years old.

Executive Deferred Compensation

In 2004, we adopted a deferred compensation plan which allows designated executive officers to defer annually all or part of their incentive bonus and to receive an employer contribution equal to the additional employer contributions, if any, that would have been made to the 40l(k) Plan and ESOP based on participants eligible compensation if certain IRS limitations on compensation and benefits did not apply. Interest earned on participant deferrals and employer contributions under the plan is equal to the average five-year daily treasury rate for the relevant quarter.

A participant or his or her beneficiary receives a distribution of his or her plan deferrals and Company contributions for a particular plan year upon the earliest of: (1) a future date specified by the participant, (2) the participant s death, (3) the participant s permanent disability, (4) the participant s retirement on or after age 65 or (5) the participant s termination of employment. The form of payment includes either a single lump-sum payment or annual installment payments over a period of years, but not more than ten years.

We suspended this plan in 2008 due to HomeStreet s financial condition and as a result none of our Named Executive Officers were participants in this plan for the year ended December 31, 2013. We did not re-activate this plan for 2013.

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Health and Welfare Benefits

All Named Executive Officers are provided with the same medical, dental, vision and life insurance programs as all other benefits eligible employees of HomeStreet on the same terms and conditions as applicable to these employees generally.

Perquisites and other Personal Benefits

We provide our Named Executive Officers with benefits that we believe are reasonable and consistent with our overall compensation program and beneficial to HomeStreet in attracting and retaining qualified executives. Perquisites include health club membership and parking.

Executive Employment Agreements

We use employment agreements to retain certain executives and the talent, skills, experience and expertise that they provide to HomeStreet, with a goal of protecting HomeStreet and the shareholders and to provide the stability and skilled leadership needed in our current environment. In 2011, we entered into an executive employment agreement with Mr. Mason. This agreement became effective upon lifting of the Federal Deposit Insurance Corporation s cease and desist order for HomeStreet Bank on March 26, 2012.

This agreement continues for a term of three years from the effective date, with an automatic renewal for additional one- year periods thereafter unless either party gives notice of termination 180 days prior to the expiration of the then-current term.

Mr. Mason s employment agreement provides for a base salary of not less than $500,000. In addition, his employment agreement requires HomeStreet to establish a performance-based target bonus under HomeStreet s incentive bonus incentive plan (discussed above under Short Term Incentive Compensation), pursuant to which Mr. Mason may receive, subject to completion of objectives, no less than 50% of his salary (or such higher amount as the HRCG may approve), less required withholding and authorized deductions. The Board of Directors or the HRCG Committee and Mr. Mason are required to establish mutually acceptable performance objectives and related payout ratios no later than March 31 of each fiscal year. Additionally, Mr. Mason s employment agreement provided that on the close of our initial public offering, he was entitled to stock options and restricted stock to allow Mr. Mason to retain the same beneficial ownership percentage immediately following that offering as he held prior to the offering. See Equity Incentive Compensation Equity Grants Effective at Closing of our Initial Public Offering above for details of this award. Our Board of Directors approved this grant to be made at the closing of our initial public offering in February 2012 even though Mr. Mason employment agreement was not yet effective.

In addition to the payment of earned and unpaid salary and incentive compensation, unused vacation time, and unreimbursed business expenses, in the event of termination of Mr. Mason s employment within one year or during the 90 days immediately preceding a change of control by HomeStreet other than for cause or by Mr. Mason for good reason, in conjunction with a mutual release agreement, Mr. Mason will receive an amount equal to the sum of: (1) two-and-one-half times his then current base salary, (2) an amount equal to two-and-one-half times the greater of his annual incentive payment earned by Mr. Mason in the year prior to termination or the contracted executive s target incentive payment for the current year and (3) payment of health insurance premiums for Mr. Mason and his dependents for up to 18 months. In addition, all of Mr. Mason s unvested restricted stock and stock options will immediately vest and will remain exercisable according to any stock option grant or plan.

In addition to the payment of accrued and unpaid salary and incentive compensation, unused vacation time and unreimbursed business expenses, in the event of a termination without cause or resignation for good reason not involving a change in control, in exchange for executing a release, Mr. Mason will receive: (1) two times his then current base salary, (2) an amount equal to two times the greater of his (a) annual incentive payment earned in the year prior to termination or (b) his target incentive payment for the current year and (3) payment of health insurance premiums for executive and his dependents for up to 18 months. In addition, Mr. Mason s unvested restricted stock and stock options will immediately vest and will remain exercisable according to any stock option grant or plan.

In addition to the prohibitions against solicitation of customers and employees and the diversion of corporate opportunities, Mr. Mason s agreement also contains a six-month non-competition agreement which restricts certain competitive acts on behalf of another bank or thrift located in Washington, Oregon, Idaho or Hawaii.

Mr. Mason s employment agreement further provides that if any payments received by Mr. Mason would constitute an excess parachute payment within the meaning of Section 280G of the Internal Revenue Code, HomeStreet will pay him individually an additional amount so that his net payment will not be diminished in any respect by the additional excise or other tax due pursuant to Section 280G of the Internal Revenue Code.

Severance and Change in Control Arrangements

In 2013, HomeStreet entered into Change In Control Agreements with certain senior officers who did not have this provision as part of their employment agreement. The Change In Control Agreement provides an enhanced severance payment, if within twelve (12) months following a change in control or 90 days prior to such change in control, the employee is terminated by HomeStreet for any reason except for Cause (as defined in the agreement) or the employee resigns for Good Reason (as defined in the agreement), HomeStreet will pay a severance as follows:

Executive Vice Presidents will receive two (2) times their current salary plus an amount equal to one times their last annual bonus or their target incentive compensation for the current year, whichever is greater, provided a release agreement is signed at the time of termination.

Senior Vice Presidents will receive one times their current salary plus an amount equal to one times their last annual bonus or their target incentive compensation for the current year, whichever is greater, provided a release agreement is signed at the time of termination.

Termination for Good Reason is defined as 1) a change in employee s duties, responsibilities or reporting relationships which represents material adverse change from those in effect immediately prior to the change; or 2) a reduction of more than fifteen (15%) percent of the employee s base compensation without the employee s prior agreement; or 3) relocation of employee s primary workplace outside of a defined Puget Sound region.

Payment shall be made in a lump sum on the earlier of the 90 days following the employee s termination of employment or March 15 of the year following the year in which the termination occurred, provided that Employee has executed and submitted a release of claims and the statutory period during which the Employee is entitled to revoke the release of claims has expired before the payment date.

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Summary Compensation Table

The following table sets forth information regarding the compensation awarded to, earned by, or paid to our Named Executive Officers.

Name and Principal Positions	Year	Salary[1] ($)	Bonus[2] ($)	Stock Awards[3] ($)	Option Awards[3] ($)	Non-Equity Incentive Plan Compensation[4] ($)	Nonqualified Deferred Compensation Earnings ($)	All Other Compensation[5] ($)	Total($)
Mark K. Mason	2013	500,000				259,469		14,790	774,259
Chief Executive Officer	2012	523,077	557,443	887,964	741,034	542,557		12,719	3,264,794
Richard W. H. Bennion	2013	203,000				364,241		15,049	582,290
Executive Vice President, Residential Lending Director	2012	203,000		71,016	59,278	688,239		12,977	1,034,510
Rose Marie David	2013	175,000	100,000	252,109		852,524		3,823	1,383,456
Executive Vice President, Single Family Lending Director	2012	120,000		79,163		634,768		1,940	835,871

(1) The figures shown for salary represent amounts earned for the fiscal year, whether or not actually paid during such year. Mr. Mason s base salary was reduced to $500,000 effective March 26, 2012 pursuant to his post initial public offering employment agreement.
(2) Mr. Mason received additional discretionary awards in 2012 including a $100,000 bonus following HomeStreet s initial public offering and $457,443 in recognition of his significant achievements in 2012. Ms. David received a discretionary bonus of $100,000 in 2013 recognizing her outstanding her outstanding performance in 2012 and the first half of 2013.
(3) Amounts represent the aggregate grant date fair market value computed in accordance with FASB ASC Topic 718. For details of all assumptions made in such calculations, see Note 17 to our financial statements.
(4) Represents amounts earned for services rendered during the fiscal year, whether or not actually paid during such fiscal year under the Annual Incentive Plan. Mr. Bennion received an incentive payout of $331,130 for the first half of 2013 and earned a bonus payout of $33,111.
(5) The Named Executive Officers participate in certain group health, disability insurance and medical reimbursement plans, not disclosed in the Summary Compensation Table, that are generally available to salaried employees and do not discriminate in scope, terms and operation. The figure shown for each Named Executive Officer for 2013 includes: (i) 401(k) matching contributions as follows: Mr. Mason, $10,200, Mr. Bennion, $10,200, and Ms. David, $1,333 ; (ii) health club membership as follows: Mr. Mason, $2,052, Mr. Bennion, $2,053, and Ms. David, $0; (iii) parking as follows: Mr. Mason, $2,400, Mr. Bennion $2,400, and Ms. David $2,400; and

(iv) life insurance premiums as follows: Mr. Mason, $138, Mr. Bennion, $396, and Ms. David, $90. We provide certain non-cash perquisites and personal benefits to each named executive officer that do not exceed $10,000 in the aggregate for any individual, and are not included in the reported figures.

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OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

	OPTION AWARDS					STOCK AWARDS			
Name	**Number of Securities Underlying Unexercised Options (#) Exercisable**	**Number of Securities Underlying Unexercised Options (#) Unexercisable**	**Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options(1)**	**Option Exercise Price ($)**	**Option Expiration Date**	**Number of Shares or Units of Stock that Have Not Vested**	**Market Value Shares or Units of Stock that Have Not Vested**	**Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have not Vested(#)**	**Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other rights That Have Not Vested ($)**
Mark K. Mason	80,724	161,444(1)		11.00	2/10/2022				
Richard W.H. Bennion	6,458	12,914(1)		11.00	2/10/2022				
Rose Marie David						9,495(2)	189,900(3)		

(1) These options vest and become exercisable in two equal installments on February 10, 2014 and 2015, respectively.
(2) Restricted stock subject to vest in three equal installments on July 25, 2014, 2015 and 2016, respectively.
(3) Based on the December 31, 2013 closing market price of HomeStreet s shares of common stock on Nasdaq of $20.00 per share.

Certain Relationships and Related Transactions

In addition to the compensation arrangements with directors and executive officers described in Executive Compensation above, the following is a description of each transaction since January 1, 2013, and each proposed transaction in which:

we have been or are to be a participant;

the amount involved exceeds or will exceed $120,000; and any of our directors, executive officers or beneficial holders of more than 5% of our capital stock, or any immediate family member of or person sharing the household with any of these individuals (other than tenants or employees), had or will have a direct or indirect material interest.

Loan Transactions

From time to time, HomeStreet Bank makes loans to directors, executive officers and other affiliates in compliance with Regulation O issued by the Federal Deposit Insurance Corporation. These loans are made in the ordinary course of business on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable loans with persons not related to us, and do not involve more than the normal risk of collectability or present other features unfavorable to us.

Indemnification Agreements

We have entered into indemnification agreements with each of the current and former directors and executive officers of HomeStreet, Inc. Subject to certain limitations, these agreements require us to indemnify these individuals to the fullest extent permitted under applicable law against liabilities that may arise by reason of their service to us, and to advance expenses incurred as a result of any proceedings against them as to which they could be indemnified. We also intend to enter into indemnification agreements with our future directors and executive officers.

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Procedures for Approval of Related Party Transactions

HomeStreet Bank is subject to the requirements of Regulation O, which places certain restrictions on loan transactions between HomeStreet Bank and its affiliates and their respective directors, executive officers and principal shareholders (or any of their related interests). Regulation O generally defines a principal shareholder as a person that directly or indirectly, or acting through or in concert with one or more other persons, owns, controls or has the power to vote more than 10% of any class of voting shares. HomeStreet Bank surveys directors and senior and executive officers of HomeStreet and HomeStreet Bank each year to identify their related interests. The board of directors has adopted a policy for lending to our employees, directors and executive officers to ensure compliance with Regulation O loans by HomeStreet Bank to our employees, directors and executive officers that exceed $500,000 in aggregate require the approval of HomeStreet Bank s board of directors.

Prior to the completion of our initial public offering, in addition to the application of Regulation O to certain related-party transactions, we followed formal conflict of interest policies requiring the review and pre-approval of transactions with a related party by the chief executive officer and audit committee where the related party is a director or by the chairman, chief executive officer or general counsel for non-director employees. Following the completion of our initial public offering in February 2012, in accordance with the audit committee s charter, the audit committee reviews and pre-approves in writing any proposed related party transactions; however, certain types of transactions, including Regulation O Loans, executive officer employment arrangements and director compensation required to be disclosed in our Proxy Statements, certain charitable contributions, transactions where all shareholders receive a proportional benefit and transaction entered into through a competitive bid prices, may be automatically deemed pre-approved as related party transactions under our Related Person Transaction Policies and Procedures, a copy of which is available on our website at www.homestreet.com. In the case of a loan requiring board approval under Regulation O, however, review and approval by our Board of Directors is still required to approve such loan under Regulation O despite any such pre-approval as a related party transaction.

Principal Shareholders

The following table sets forth the beneficial ownership of our common stock as of December 31, 2014, by:

- each of the directors and Named Executive Officers of HomeStreet, Inc.;
- all of our directors and executive officers as a group; and
- each person known to us to be the beneficial owner of more than 5% of any class of our securities.

The amounts and percentage of our common stock beneficially owned are reported on the basis of regulations of the SEC governing the determination of beneficial ownership of securities. The SEC has defined beneficial ownership of a security to mean, generally, the possession, including shared possession, directly or indirectly, of voting power or investment power. A shareholder is also deemed to be, as of any date, the beneficial owner of all securities that such shareholder has the right to acquire within 60 days after that date through (1) the exercise of any option, warrant or right, (2) the conversion of a security, (3) the power to revoke a trust, discretionary account or similar arrangement or (4) the automatic termination of a trust, discretionary account or similar arrangement. Under these rules, more than one person may be deemed a beneficial owner of the same securities, and a person may be deemed a beneficial owner of securities as to which he has no economic interest. Unless otherwise indicated, we believe that each of the shareholders listed has sole voting and investment power with respect to their beneficially owned shares of our common stock.

The percentages reflect beneficial ownership as of December 31, 2014, as determined under Rule 13d-3 under the Exchange Act and are based on 14,856,610.6 shares of our common stock outstanding as of that date. In addition, any options exercisable within 60 days of December 31, 2014 will be included in the beneficial ownership of the holder of such option, and the percentage ownership for that holder will be calculated by adding the aggregate number of options exercisable within 60 days of December 31, 2014 to both the number of shares

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held by that specific shareholder and the total number of shares outstanding. Unless otherwise set forth in the following table, the address of the listed shareholders is c/o HomeStreet, Inc., 601 Union Street, Suite 2000, Seattle, Washington 98101.

Name of Beneficial Owner	Number of Shares of Common Stock	Ownership Percentage
Black Rock, Inc.(1) 40 East 52nd Street New York, NY	1,578,582	10.6%
Wellington Management Co. LLP(2) 280 Congress Street Boston, Massachusetts 02210	1,259,700	8.48%
Basswood Capital Management, LLC(3) 645 Madison Avenue, 10th Floor New York, NY 10022	1,025,418	6.9%
Jacobs Asset Management, LLC(4) 11 East 26th Street, Suite 1900 New York, NY 10010	752,815	5.07%
Bruce W. Williams(5)	795,800.44	5.36%
Mark K. Mason(6)	398,610.00	1.60%
Richard W.H. Bennion(7)	63,675.70	*
Douglas I. Smith(8)	59,957.00	*
David A. Ederer(9)	32,419.60	*
Timothy R. Chrisman(10)	35,280.00	*
Michael J. Malone(11)	19,657.00	*
Rose Marie David(12)	18,162.00	*
Thomas E. King(11)	13,495.00	*
Scott M. Boggs(13)	13,995.40	*
George Judd Kirk(14)	11,829.40	*
Victor H. Indiek(11)	5,928.57	*
All executive officers and directors as a group (22 persons)(15)	**1,814,680.167**	**12.15%**

* less than 1.0%

(1) Based on Schedule 13 filed with the Securities and Exchange Commission on April 8, 2014.

(2) Based on Form 13F filed with the Securities and Exchange Commission on November 14, 2014.
(3) Of the shares beneficially owned by Basswood Capital Management, LLC, Basswood Enhanced Long Short Fund, LP and Basswood Enhanced Long Short GP, LLC, each have shared voting and dispositive power over 927,909 shares, while Michael Lindenbaum and Bennett Lindenbaum each have shared voting and dispositive power over 1,025,418 shares. Based on Schedule 13/A filed with the Securities and Exchange Commission on February 12, 2014.
(4) Jacobs Asset Management, LLC has shared voting and dispositive power of all 752,815 shares with Sy Jacobs. Based on Schedule 13G/A filed with the Securities and Exchange Commission on February 14, 2014.
(5) Includes 19,252.644 shares held through the 401(k) Plan. The 401(k) Plan participants have the authority to direct voting of shares they hold through the 401(k) Plan. Also includes (a) 31,547.2 shares held jointly with Gro A. Buer, Mr. William s spouse; (b) 28,128 shares held as co-trustee with Ms. Buer for the Marina Sonja Williams Trust dated 12/25/95; (c) 2,188.4 shares held as sole trustee for Marina Sonja Williams Trust dated 12/23/03; (d) 135,000 shares held as sole trustee for Marina S. Williams Trust UA dated 6/27/13; (e) 150,076.8 shares held as executor of the estate of Walter B. Williams; (f) 150,073.6 shares held as executor of the estate of Marie W. Williams; (g) 1.2 shares held as the sole trustee of the Walter B. Williams Interim Trust; (h) 55,281.6 shares held as the sole trustee of the Karen M. Zimmerman Trust dated 12/22/00; (i) 55,281.6 shares held as the sole trustee of the Steven W. Zimmerman Trust dated 12/22/00; (j) 750.4

shares held as the sole trustee for the Andrew Alvaro Mullins-Williams Trust dated 11/29/05, (k) 0.40 shares held individually by Gro A. Buer and (l) 566 shares of restricted stock subject to vesting on February 15, 2015.

(6) Includes 237,164 shares held as co-trustee with Tracy Mason, Mr. Mason s spouse, for the Mason Family Trust dated 2/16/99. Does not include 8,340 restricted stock units granted under the 2014 Plan that will vest in three tranches beginning on May 29, 2015. Does not include 12,510 performance share units granted under the 2014 Plan that will be eligible to vest in 2017 based on performance criteria.

(7) Includes 21,334.092 shares held through the 401(k) Plan. The 401(k) Plan participants have the authority to direct voting of shares they hold through the 401(k) Plan. Also includes 19,356 shares held as co-trustee with. Diane Bennion, Mr. Bennion s spouse for the Bennion Revocable Living Trust dated 12/19/02.

(8) Includes 56,600 shares of common stock held jointly by Ann Smith, Mr. Smith s spouse, and 566 shares of restricted stock subject to vesting on February 15, 2015.

(9) Includes (a) 866 shares of restricted stock subject to vesting on February 15, 2015; (b) 1,000 shares held as sole trustee for the Alicia Ruth Apple Trust dated 8/14/1992; (c) 1,000 shares held as sole trustee for Katelyn Jane Apple Trust dated 8/14/1992 and (d) 1,000 shares held as sole trustee for Lucas James Apple Trust dated 8/14/1992.

(10) Includes 1,000 shares held indirectly through Chrisman and Company, Inc..

(11) Includes 566 shares of restricted stock subject to vesting on February 15, 2015.

(12) Includes 3,000 shares held jointly with Don Balalke, Ms. David s spouse and 9,495 shares of restricted stock subject to ratable vesting on each of July 25, 2014, 2015 and 2016. Does not include 1,113 restricted stock units granted under the 2014 Plan that will vest in three tranches beginning on May 29, 2015. Does not include 1,113 performance share units granted under the 2014 Plan that will be eligible to vest in 2017 based on performance criteria.

(13) Includes 566 shares of restricted stock subject to vesting on February 15, 2015 and 6,400 shares held jointly with Patricia Boggs, Mr. Boggs spouse.

(14) Includes 6,488.4 shares of common stock held jointly by Barbara Kirk, Mr. Kirk s spouse, and 566 shares of restricted stock subject to vesting on February 15, 2015.

(15) Includes (a) 14 restricted stock awards to executive officers and continuing non-employee directors for an estimated aggregate 47,868.360 shares and (b) 72,284 shares held through the 401(k) Plan. Participants in HomeStreet s 401(k) Plan have the authority to direct voting of shares they hold through the 401(k) Plan. Does not include 35,766 restricted stock units granted under the 2014 Plan that will vest in tranches beginning on May 29, 2015. Does not include 38,838 performance share units granted that will be eligible to vest in 2017 based on performance criteria.

Information Regarding Equity Compensation Plans

The following table gives information about our common stock that may be issued upon the exercise of options, warrants and rights under all of our existing equity compensation plans as of December 31, 2013, including the 2010 Plan, the 2011 Plan and the retention grants made in 2010 outside of the 2010 Plan but subject to the terms and conditions of that plan. This table does not include the 2014 Plan as that plan was not in place at the end of 2013.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted Average Exercise Price of Outstanding Options, Warrants, and	Number of Securities Remaining Available for Future Issuance Under

		Rights	Equity Compensation Plans
Plans approved by shareholders	604,616	$ 12.34[1]	249,396[2][3][4]
Plans not approved by shareholders[5]	49,600	$ 0.93	N/A
Total	654,216	$ 12.10	249,396

(1) Consists of option grants awarded pursuant to the 2010 Plan.
(2) Consists of 94,294 shares remaining under the 2010 Plan and 155,102 shares remaining under the 2011 Plan.
(3) The 2010 Plan was approved by shareholders in January 2010 but did not become effective until the completion of our initial public offering in February 2012. Following our initial public offering, the number of shares available for issuance under the 2010 Plan, giving effect to our 2-for-1 forward stock splits in March 2012 and November 2012, was 965,854 shares. This amount was established by the Board, which determined that it will not issue equity grants under the 2010 Plan in an amount that would cause the combined amount of awards granted pursuant to the 2010 Plan and the 2010 retention equity awards to exceed 1,412,712 shares of our common stock or 10% of the number of shares outstanding immediately following the closing of our initial public offering.
(4) During 2013, under the 2010 Plan, HomeStreet awarded 31,654 restricted stock awards, of which none have vested, and 1,489 performance stock awards, all of which have vested. HomeStreet also issued an aggregate of 8,366 shares of unrestricted common stock to HomeStreet s non-employee directors pursuant to the 2011 Plan.
(5) Consists of retention equity awards granted in 2010 outside of the 2010 Plan but subject to its terms and conditions.

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INFORMATION ABOUT SIMPLICITY

Note: References in this section to first-person pronouns such as we, us and our, and terms of similar context, refer to Simplicity and its consolidated subsidiary, Simplicity Bank, unless otherwise specified.

Forward Looking Statements

This joint proxy statement contains forward-looking statements and information relating to Simplicity and Simplicity Bank that are based on the beliefs of management as well as assumptions made by and information currently available to management. Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts. They often include words like believe, expect, intend, anticipate, estimate, project, strategy, future conditional verbs such as will, should, could, or may and similar expressions or the negative thereof. Certain factors that could cause actual results to differ materially from expected results include, changes in the interest rate environment, changes in general economic conditions, legislative and regulatory changes that adversely affect the business of Simplicity and Simplicity Bank, and changes in the securities markets. Should one or more of these risks or uncertainties materialize or should underlying assumptions prove incorrect, actual results may vary materially from those described herein. We caution readers not to place undue reliance on forward-looking statements. Simplicity disclaims any obligation to revise or update any forward-looking statements contained in this joint proxy statement to reflect future events or developments.

General

Simplicity is a Maryland corporation that owns all of the outstanding common stock of Simplicity Bank. Simplicity s business activities generally are limited to passive investment activities and oversight of its investment in Simplicity Bank. Unless the context otherwise requires, all references to Simplicity include Simplicity Bank and Simplicity on a consolidated basis.

At September 30, 2014, Simplicity had consolidated assets of $863.4 million, deposits of $656.5 million and stockholders equity of $137.5 million. Simplicity does not maintain offices separate from those of Simplicity Bank or utilize persons other than certain Simplicity Bank officers. Our executive offices are located at 1359 North Grand Avenue, Covina, California 91724 and our telephone number is (800) 524-2274.

Simplicity Bank is a community oriented financial institution offering a variety of financial services to meet the needs of the communities it serves. Simplicity Bank is headquartered in Covina, California, with branches in Glendora, Downey, Harbor City, Los Angeles, Panorama City and Pasadena to serve Los Angeles County and a branch in Fontana to serve San Bernardino County. We have a network of 45 ATMs located in Southern California and the San Francisco Metropolitan Area, primarily located within Kaiser Permanente Medical Centers and office buildings.

We began operations as a credit union in 1953 initially serving the employees of the Kaiser Foundation Hospital in Los Angeles, California. As the Kaiser Permanente Medical Care Program evolved so did the credit union, and in 1972, it changed its name to Kaiser Permanente Federal Credit Union. The credit union grew to primarily serve Kaiser Permanente employees and physicians who worked or lived in California. However, as a credit union, the credit union was legally restricted to serve only individuals who shared a common bond such as a common employer.

After receiving the necessary regulatory and membership approvals, on November 1, 1999, Kaiser Permanente Federal Credit Union converted to a federal mutual savings bank known as Kaiser Federal Bank which served the general public as well as Kaiser Permanente employees. Kaiser Federal Bank reorganized into the mutual holding company structure in 2003 and became the wholly owned subsidiary of K-Fed Bancorp. On March 30, 2004, K-Fed

Bancorp completed a minority stock offering where it sold approximately 39% of its shares to the public.

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In November 2010, we completed the second step conversion and offering and Kaiser Federal Bank became the wholly owned subsidiary of Kaiser Federal Financial Group, Inc. We sold a total of 6,375,000 shares of common stock in the offering at a purchase price of $10.00 per share. The offering raised capital of $59.1 million, which was net of costs of $4.7 million. Concurrent with the completion of the offering, shares of K-Fed Bancorp common stock owned by public stockholders were exchanged for 0.7194 of a share of our common stock.

Effective November 13, 2012, Kaiser Federal Bank was renamed Simplicity Bank. In addition, we changed our name to Simplicity Bancorp, Inc. This new name aligns well with the core principles Simplicity Bank was founded upon to provide value, personal service and financial well being for its customers and communities. As Simplicity Bank, we strive to simplify the banking experience for our customers with more options, better technology, enhanced service capacity, a fresh look and a renewed vision. Under the new name, we continue to serve Kaiser Permanente employees and their family members, but are better positioned to serve the needs of all customers within our market footprint.

Simplicity Bank s principal business activity consists of attracting retail deposits from the general public and originating or purchasing primarily loans secured by first mortgages on owner-occupied one-to-four family residences and multi-family residences located in its market area and, to a lesser extent, automobile, commercial real estate and other consumer loans. We also engage in mortgage banking activities which primarily consists of the origination and sale of fixed rate conforming one-to-four family residential real estate loans in the secondary market with servicing primarily retained. While Simplicity Bank originates different types of residential loans, Simplicity Bank purchased in fiscal 2012, using its own underwriting standards, a significant number of first mortgages on owner-occupied, one-to-four family residences secured by properties located throughout California. These purchases were primarily funded with Federal Home Loan Bank of San Francisco (SF FHLB) borrowings and deposits. Depending on market conditions and the interest rate environment, we may consider future loan purchases on a case by case basis. Prior to January 2009, we also originated commercial real estate loans. Currently, we consider the origination of commercial real estate loans on a case by case basis based on the borrower s credit qualifications and the property offered for collateral. We have not originated any new commercial real estate loans since 2009 but are now actively marketing commercial real estate loan products. Since fiscal 2013, our consumer loans, primarily automobile loans, continued to increase due to the reintroduction of our automobile buying service, vastly improved application and delivery channels, enhanced pricing of the vehicle loan products, and implementation of the consumer loan sales team. Historically, we have not originated, or purchased, commercial business, commercial construction, or residential construction loans and have no current plans to do so.

Our revenues are derived principally from interest on loans and mortgage-backed and related securities. We also generate revenue from sales of loans held for sale, service charges and other income.

We offer a variety of deposit accounts having a wide range of interest rates and terms, which generally include savings accounts, money market accounts, demand deposit accounts and certificate of deposit accounts with varied terms ranging from 90 days to five years. We solicit deposits in our primary market areas of Los Angeles, Orange, San Diego, San Bernardino and Riverside counties, in California.

Market Area

Our success depends primarily on the general economic conditions in the California counties of Los Angeles, Orange, San Diego, San Bernardino, Riverside, Santa Clara and Alameda, as nearly all of our loans are to customers in this market area. There have been positive developments in current economic conditions since the end of the recession. Improving financial conditions, increasing credit availability, accommodative monetary policy, and healthier labor and housing markets all support the economic growth in our market area. According to the Beige Book published by the Federal Reserve in October 2014, economic activity continued to expand. Residential construction and real estate activity were mixed while commercial construction and real estate activity grew in most Districts. Banking conditions continued to improve and commercial loan volumes increased in nearly all reporting Districts. In the Twelfth Federal Reserve District (San Francisco), economic activity continued to improve moderately during mid-August through late September 2014. Real estate activity in the San Francisco District advanced, but growth trends in the residential sector were uneven across the San Francisco District. Prices of single-family homes accelerated in a few areas, while in other areas the pace of price increases declined. Sales of single-family homes were stable. Overall, multifamily construction and development activity remained strong. In Los Angeles, commercial real estate construction picked up. Overall loan demand increased moderately. Asset quality improved and current overall loan performance was comparable to that seen before the recession. Competition among lenders for customers with high-quality credit remained intense, which had depressed interest rates on loans, reducing net interest margins and profitability. Future growth opportunities will be influenced by the stability of the nation and the regional economy and other trends within California, including unemployment rates and housing market conditions.

Sustained employment gains have helped to lower the unemployment rate. Despite this sustained improvement, the broad array of labor market indicators suggest continued slack. In particular, California continues to experience elevated unemployment rates as compared to the national average. Unemployment rates in California decreased slightly from 7.4% in June 2014 to 7.3% in September 2014. This compares to the national unemployment rate which trended down from 6.1% in June 2014 to 5.9% in September 2014.

Overview and Business Strategy

Our results of operations depend primarily on our net interest income, which is the difference between interest income earned on interest-earning assets, consisting of primarily loans and investment securities, and interest expense paid on interest-bearing liabilities, consisting of deposits and borrowings. Our results of operations also are affected by the level of our provisions for loan losses, noninterest income and noninterest expenses. Noninterest income consists primarily of service charges and fees on deposit accounts, ATM fees and other charges, and gain on sale of loans. Noninterest expense consists primarily of salaries and employee benefits, occupancy and equipment, ATM expense, advertising and promotional, professional services and other expenses. Our results of operations may also be affected significantly by general and local economic and competitive conditions, changes in market interest rates, governmental policies and actions of regulatory authorities.

Effective November 13, 2012, the bank was renamed Simplicity Bank. In addition, we changed our name to Simplicity Bancorp, Inc. and our trading symbol to SMPL. As Simplicity Bank, Simplicity continued to provide value, personal service, and financial well-being for its customers and communities through simplifying banking processes for our customers with more options, better technology, and enhanced products and service capacity. During fiscal 2014, Simplicity continued focusing on building brand awareness, promoting our competitive loan and deposit products, and deepening customer relationships within our communities by launching extensive marketing campaigns and supporting various community events. With our seven branch offices and ATM networks strategically located at or near Kaiser Permanente facilities, we will continue to be an attractive choice for our customer base.

Our mission is to create lasting value for our customers, employees, communities and investors by simplifying the banking experience. Consistent with that mission, our goal is to promote the financial well-being of the customers and communities we serve, through the delivery of high quality financial services and prudent management. We seek to accomplish this goal by:

- continuing our emphasis on building and expanding customer relationships by actively involving Simplicity in community initiatives, improving customer experience by offering online banking and bill payment services, mobile banking services and maintaining easily accessible offices and ATMs;

continuing our efforts to reduce non-performing assets;

continuing our efforts to diversify the loan portfolio to ensure growth opportunities in all major loan categories, including one-to-four family residential real estate loans, multi-family residential loans, commercial real estate loans, and consumer loans;

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- continuing strategic focus of expanding loan product offerings, enhancing application and loan delivery channels, simplifying processes and leveraging technology to align with Simplicity s goal to provide customers with innovative products and superior service; and

- continuing to focus on mortgage banking activities which primarily consists of the origination and sale of fixed rate conforming one-to-four family residential real estate loans in the secondary market with servicing generally retained.

Remote access methods, such as our 45 ATMs, voice response, call center, bill payment, online and text banking services continue to process the majority of our customer transactions. Branches strategically located for our markets provide touch points to attract new customers and facilitate transactions that cannot be completed electronically.

We have a commitment to our customers, existing and new, to provide high quality service. Our goal is to grow Simplicity Bank while providing cost effective services to our market area.

Critical Accounting Policies and Estimates

In reviewing and understanding our financial information, it is important to read and understand the significant accounting policies used in preparing our consolidated financial statements.

These policies are described in Note 1 to Simplicity s consolidated financial statements in the Annual Report on the Form 10-K and are essential in understanding Management s Discussion and Analysis of Financial Condition and Results of Operations. Our accounting and financial reporting policies conform to U.S. GAAP and to general practices within the banking industry. Accordingly, the consolidated financial statements require certain estimates, judgments, and assumptions, which are believed to be reasonable, based upon the information available. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the years presented. Actual results could vary from those estimates, perhaps in material adverse ways, and those estimates could be different under different assumptions or conditions. The following accounting policies comprise those that management believes are the most critical to aid in fully understanding and evaluating our reported financial results.

Allowance for Loan Losses. The allowance for loan losses and related provision expense are susceptible to change if the credit quality of our loan portfolio changes, which is evidenced by charge-offs and non-performing loan trends. Generally, one- to-four family residential real estate lending has a lower credit risk profile compared to consumer lending (such as automobile or personal lines of credit loans). While management intends to focus our efforts in diversifying the loan portfolio, in the past few years, our loan mix has changed as we focused our efforts on originating multi-family residential loans and offering a wider array of consumer loan products, which in turn increased our income property loan portfolio and consumer loan portfolio over historical levels. Income property lending, however, has a higher credit risk profile than consumer and one- to-four family residential real estate loans due to these loans being larger in amount and non-homogenous in structure and term. Changes in economic conditions, the mix and size of the loan portfolio and individual borrower conditions can dramatically impact our level of allowance for loan losses in relatively short periods of time. Management believes that the allowance for loan losses is maintained at a level that represents probable incurred credit losses in the loan portfolio. While management uses available information to recognize losses on loans, future additions to the allowance for loan losses may be necessary based on changes in economic conditions. In addition, our banking regulators and external auditor periodically review our allowance for loan losses. These entities may require us to recognize additions to the allowance for loan losses based on their judgments about information available to them at the time of their review.

Management evaluates current information and events regarding a borrower s ability to repay its obligations and considers a loan to be impaired when the ultimate collectability of amounts due, according to the contractual terms of the loan agreement, is in doubt. If an impaired loan is collateral-dependent, the fair value of the collateral, less estimated costs to sell, is used to determine the amount of impairment, if any. The amount of the impairment can be adjusted, based on current data, until such time as the actual basis is established by acquisition of the collateral. Impairment losses are reflected in the allowance for loan losses through a charge to the provision for loan losses. Subsequent recoveries are credited to the allowance for loan losses.

Fair Value of Financial Instruments. The estimation of fair value is significant to certain of our assets, including investment securities available-for-sale, real estate owned, mortgage servicing assets, loans held for sale, derivatives, and the value of loan collateral for impaired loans. These are all recorded at either fair value or the lower of cost or fair value. Fair values are determined based on third party sources, when available. Furthermore, GAAP requires disclosure of the fair value of financial instruments as a part of the notes to the consolidated financial statements.

Fair values of financial instruments are estimated using relevant market information and other assumptions. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates.

Comparison of Financial Condition at September 30, 2014 and June 30, 2014.

Assets. Total assets declined $15.8 million, or 1.8%, to $863.4 million at September 30, 2014 from $879.2 million at June 30, 2014 due primarily to decreases in gross loans receivable and securities available-for-sale, partially offset by an increase in cash and cash equivalents.

Cash and cash equivalents increased by $9.8 million, or 14.2%, to $79.1 million at September 30, 2014 from $69.3 million at June 30, 2014. The increase was primarily due to principal repayments of loans and securities and an increase in deposits.

Securities available-for-sale decreased by $2.9 million, or 5.0%, to $54.0 million at September 30, 2014 from $56.9 million at June 30, 2014 due primarily to principal repayments of existing securities.

Gross loans receivable decreased by $22.4 million, or 3.1%, to $697.5 million at September 30, 2014 from $719.9 million at June 30, 2014. The decrease was primarily attributable to principal repayments and payoffs in addition to the sale of newly originated conforming fixed rate one-to-four family residential loans in the secondary market. Multi-family residential loans decreased $13.2 million, or 4.0%, to $321.8 million at September 30, 2014 from $335.0 million at June 30, 2014 due to principal prepayments and payoffs outpacing new loan originations during the three months ended September 30, 2014. One-to-four family residential real estate loans decreased $6.2 million, or 2.1%, to $282.8 million at September 30, 2014 from $289.0 million at June 30, 2014 due primarily to principal prepayments and payoffs and sales of newly originated conforming fixed rate loans held for sale in the secondary market. Commercial real estate loans decreased $4.4 million, or 11.5%, to $33.7 million at September 30, 2014 from $38.1 million at June 30, 2014 due to principal prepayments and payoffs as there have been no new commercial real estate loan originations during the three months ended September 30, 2014. Consumer loans at September 30, 2014 which were comprised primarily of automobile loans totaling $48.6 million increased $1.4 million, or 2.5%, to $59.2 million at September 30, 2014 from $57.8 million at June 30, 2014 due to $2.7 million in automobile loan originations during the three months ended September 30, 2014.

The allowance for loan losses decreased by $250,000, or 5.5%, to $4.3 million at September 30, 2014 from $4.6 million at June 30, 2014 due primarily to a $350,000 reversal of provision for loan losses during the three months ended September 30, 2014 resulting from recoveries as well as improved asset quality of the loan portfolio as evidenced by a lower level of criticized and non-accrual loans, and a decline in the historical loss factors for our first fiscal quarter of 2015. Non-performing assets decreased to $7.4 million, or 0.86% of total assets at September 30, 2014 as compared to $7.9 million, or 0.90% of total assets at June 30, 2014.

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Deposits. Total deposits increased $3.7 million, or 0.6%, to $656.5 million at September 30, 2014 from $652.8 million at June 30, 2014. The increase was comprised of a $10.2 million increase in interest-bearing deposits, partially offset by a $6.5 million decrease in non-interest bearing demand deposits.

The increase in interest-bearing deposits consisted of a $23.0 million, or 28.1%, increase in interest-bearing checking from $81.8 million at June 30, 2014 to $104.8 million at September 30, 2014. The increase was partially offset by a $8.6 million, or 6.3%, decrease in money market accounts from $138.2 million at June 30, 2014 to $129.5 million at September 30, 2014, a $2.4 million, or 1.9%, decrease in savings accounts from $125.8 million at June 30, 2014 to $123.3 million at September 30, 2014, and a $1.7 million, or 0.7%, decrease in certificates of deposit from $246.5 million at June 30, 2014 to $244.8 million at September 30, 2014. The growth in interest-bearing checking balances was due primarily to Simplicity s marketing strategy to promote interest-bearing checking deposits with enhanced features to deepen customer relationships. The decrease in certificates of deposit was attributable to non-relationship customers seeking higher yields at other financial institutions as accounts repriced to lower offering rates. The decline in money market balances was attributable to the promotion of interest-bearing checking accounts. Savings accounts decreased primarily due to the timing of customer payroll deposits as compared to June 30, 2014 and the discontinuation of certain savings products which traditionally had higher offering rates. The change in deposit mix was consistent with Simplicity s strategic decision to promote interest-bearing checking deposits to attract relationship customers in our target markets while reducing our reliance on time deposits by competing less aggressively on time deposit interest rates.

Non-interest bearing demand deposits decreased $6.5 million, or 10.7%, from $60.6 million at June 30, 2014 to $54.1 million at September 30, 2014. The decline in non-interest bearing demand deposits was primarily a result of the timing of customer payroll deposits as compared to June 30, 2014.

Borrowings. SF FHLB advances decreased to $65.0 million at September 30, 2014 as compared to $85.0 million at June 30, 2014 due to a $20.0 million scheduled maturity in a lower costing FHLB advance. The weighted average cost of SF FHLB advances increased to 1.79% at September 30, 2014 from 1.57% at June 30, 2014.

Stockholders Equity. Total stockholders equity, represented 15.9% of total assets and increased to $137.5 million at September 30, 2014 from $136.9 million at June 30, 2014. The increase in stockholders equity was primarily attributable to $1.1 million in net income, partially offset by cash dividends paid of $634,000 during the three months ended September 30, 2014.

Comparison of Financial Condition at June 30, 2014 and June 30, 2013.

Assets. Total assets increased by $11.8 million, or 1.4%, to $879.2 million at June 30, 2014 from $867.4 million at June 30, 2013 due primarily to an increase in gross loans receivable and securities available-for-sale, partially offset by a decrease in cash and cash equivalents.

Cash and cash equivalents decreased by $16.4 million, or 19.2%, to $69.3 million at June 30, 2014 from $85.7 million at June 30, 2013. The decrease was primarily due to cash deployed to fund the net growth in loans receivable.

Our investment securities portfolio increased by $4.6 million, or 8.7%, to $57.3 million at June 30, 2014 from $52.7 million at June 30, 2013. The increase was primarily a result of new purchases of securities available-for-sale. Securities available-for-sale increased by $4.7 million, or 9.0%, to $56.9 million at June 30, 2014 from $52.2 million at June 30, 2013 due to purchases of $15.2 million in agency mortgage-backed securities and collateralized mortgage obligations, partially offset by maturities, principal repayments and amortization of existing securities.

Our gross loans receivable increased by $25.5 million, or 3.7%, to $719.9 million at June 30, 2014 from $694.3 million at June 30, 2013. The increase was primarily attributable to organic loan growth in multi-family residential loans and consumer loans, offset in part by principal repayments and payoffs in the loan portfolio in addition to the sale of newly originated conforming fixed rate one-to-four family residential loans in the secondary market. Multi-family loans increased $54.3 million, or 19.3%, to $335.0 million at June 30, 2014 from $280.8 million at June 30, 2013 due to $118.2 million in loan originations during the year ended June 30, 2014 as our emphasis remained on growing this portfolio segment. Consumer loans at June 30, 2014 which were comprised primarily of automobile loans totaling $45.7 million and unsecured loans totaling $7.4 million increased $19.5 million, or 50.9%, to $57.8 million at June 30, 2014 from $38.3 million at June 30, 2013. This growth was the result of $34.7 million and $12.2 million in automobile and unsecured loan originations, respectively, during the year ended June 30, 2014. The increase in consumer loans was primarily due to the reintroduction of automobile buying service, enhanced pricing of the vehicle loan products, the successful launch of a fully integrated on-line instant decision application, and implementation of the consumer loan sales team in fiscal 2014. Simplicity now offers its customers a wider array of consumer loan products with vastly improved application and delivery channels. In addition, through continued leveraging of retail delivery staff, building on brand recognition and consistent marketing of our competitive loan products, it is anticipated that our consumer loan portfolio will continue to grow. Commercial real estate loans decreased $17.6 million, or 31.6%, to $38.1 million at June 30, 2014 from $55.6 million at June 30, 2013 due to principal repayments and payoffs as there have been no new commercial real estate loan originations during the year ended June 30, 2014. One-to-four family residential real estate loans decreased $30.7 million, or 9.6%, to $289.0 million at June 30, 2014 from $319.6 million at June 30, 2013 due primarily to principal repayments and payoffs and sales of newly originated conforming fixed rate loans held for sale in the secondary market.

The allowance for loan losses decreased by $1.1 million, or 18.8%, to $4.6 million at June 30, 2014 from $5.6 million at June 30, 2013. The general valuation allowance decreased by $1.0 million to $3.6 million at June 30, 2014 from $4.6 million at June 30, 2013. The decrease in the general valuation allowance was primarily attributable to a $700,000 provision reversal due primarily to a decrease in net charge-offs as well as improved asset quality of the loan portfolio as evidenced by a lower level of classified and non-accrual loans, and a decline in the historical loss factors used to calculate the general valuation allowance. Non-performing assets decreased to $7.9 million, or 0.90% of total assets at June 30, 2014 as compared to $16.0 million, or 1.84% of total assets at June 30, 2013. Delinquent loans 60 days or more decreased to $1.1 million, or 0.16% of total loans at June 30, 2014 as compared to $5.5 million, or 0.79% of total loans at June 30, 2013. At June 30, 2014 the general valuation allowance was comprised of $1.4 million, $993,000, $999,000 and $219,000 on one-to-four family residential, multi-family residential, commercial real estate and consumer loans, respectively. At June 30, 2013 the general valuation allowance was comprised of $2.1 million, $839,000, $1.6 million and $137,000 on one-to-four family residential, multi-family residential, commercial real estate and consumer loans, respectively. The decline in the general valuation allowance on one-to-four family residential loans was a result of an improvement in historical loss factors for the portfolio coupled with a decline in the one-to-four family residential loan balance. The increase in the general valuation allowance on multi-family residential loans was primarily a result of the higher multi-family residential loan balance. The decrease in the general valuation allowance on commercial real estate loans was primarily a result of a decline in the commercial real estate loan balance as well as a decrease in the historical loss factors for the portfolio. The valuation allowances on loans individually evaluated for impairment decreased by $30,000 to $979,000 at June 30, 2014 from $1.0 million at June 30, 2013. The reduction in valuation allowances on impaired loans was attributable to continuous and timely payments from the borrowers. See Item 1-Business Asset Quality-Allowance for Loan Losses.

Deposits. Total deposits decreased $1.8 million, or 0.3%, to $652.8 million at June 30, 2014 from $654.6 million at June 30, 2013. The decline was comprised of a $5.1 million decrease in non-interest bearing demand deposits partially offset by a $3.3 million increase in interest-bearing deposits.

Non-interest bearing demand deposits decreased $5.1 million, or 7.8%, from $65.7 million at June 30, 2013 to $60.6 million at June 30, 2014. The decline in non-interest bearing demand deposits was primarily a result of the promotion of our interest-bearing checking product.

The increase in interest-bearing deposits consisted of a $67.3 million, or 465.7%, increase in interest-bearing checking from $14.5 million at June 30, 2013 to $81.8 million at June 30, 2014, which was partially offset by a $33.6 million, or 12.0%, decrease in certificates of deposit from $280.1 million at June 30, 2013 to $246.5 million at June 30, 2014, a $21.4 million, or 13.4%, decrease in money market accounts from $159.6 million at June 30, 2013 to $138.2 million at June 30, 2014, and a $9.1 million, or 6.7%, decrease in savings accounts from $134.9 million at June 30, 2013 to $125.8 million at June 30, 2014. The growth in interest-bearing checking balances was due primarily to Simplicity s marketing strategy to promote interest-bearing checking deposits with enhanced features to deepen customer relationships. The decrease in certificates of deposit was attributable to non-relationship customers seeking higher yields at other financial institutions as accounts repriced to lower offering rates. The decline in money market balances was attributable to the promotion of interest-bearing checking. Savings accounts decreased primarily due to the discontinuation of certain savings products which traditionally had higher offering rates. The change in deposit mix was consistent with Simplicity s strategic decision to promote interest-bearing checking deposits to attract relationship customers in our target markets while reducing our reliance on time deposits by competing less aggressively on time deposit interest rates.

Borrowings. FHLB advances increased to $85.0 million at June 30, 2014 as compared to $60.0 million at June 30, 2013. The weighted average cost of SF FHLB advances was 1.57% at June 30, 2014 as compared to 1.64% at June 30, 2013. During the year ended June 30, 2014, Simplicity Bank borrowed $25.0 million in SF FHLB advances at a weighted average cost of 1.38%. The increase in borrowings has allowed Simplicity Bank to manage its liquidity position and improve its interest rate risk position by locking in lower cost longer term funding.

Stockholders Equity. Total stockholders equity, represented 15.6% of total assets and decreased to $136.9 million at June 30, 2014 from $145.4 million at June 30, 2013. The decrease in stockholders equity was primarily attributable to shares repurchased at an aggregate cost of $12.9 million during the year ended June 30, 2014 pursuant to the stock repurchase programs previously announced as well as cash dividends paid of $2.4 million, partially offset by net income of $5.3 million.

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Average Balances, Net Interest Income, Yields Earned and Rates Paid

The following table sets forth certain information for the three months ended September 30, 2014 and 2013, respectively.

	For the three months ended September 30, 2014[1]			2013[1]		
	Average Balance	Interest	Average Yield/ Cost	Average Balance	Interest	Average Yield/ Cost
			(Dollars in thousands)			
INTEREST-EARNING ASSETS						
Loans receivable[2]	$ 709,919	$ 7,716	4.35%	$ 706,331	$ 8,018	4.54%
Securities[3]	55,796	204	1.46	50,456	167	1.32
Federal funds sold	66,663	39	0.23	49,269	29	0.24
Federal Home Loan Bank stock	5,579	105	7.53	5,962	80	5.37
Total interest-earning assets	837,957	8,064	3.85	812,018	8,294	4.09
Noninterest earning assets	37,218			37,586		
Total assets	$ 875,175			$ 849,604		
INTEREST-BEARING LIABILITIES						
Interest-bearing checking	$ 97,382	$ 220	0.90%	$ 14,211	$ 2	0.06%
Money market	133,966	76	0.23	160,510	92	0.23
Savings deposits	124,216	27	0.09	133,495	31	0.09
Certificates of deposit	245,514	1,035	1.69	270,323	1,266	1.87
Borrowings	75,000	312	1.66	60,000	249	1.66
Total interest-bearing liabilities	676,078	1,670	0.99	638,539	1,640	1.03
Noninterest bearing liabilities	61,896			66,353		
Total liabilities	737,974			704,892		
Equity	137,201			144,712		
Total liabilities and equity	$ 875,175			$ 849,604		
Net interest/spread		$ 6,394	2.86%		$ 6,654	3.06%
Margin[4]			3.05%			3.28%
Ratio of interest-earning assets to interest bearing liabilities	123.94%			127.17%		

(1) Yields earned and rates paid have been annualized.
(2) Calculated net of deferred fees, loss reserves and includes non-accrual loans.
(3) Calculated based on amortized cost of held-to-maturity securities and fair value of available-for-sale securities.
(4) Net interest income divided by interest-earning assets.

Comparison of Results of Operations for the Three Months Ended September 30, 2014 and September 30, 2013.

General. Net income for the three months ended September 30, 2014 of $1.1 million was relatively unchanged as compared to the three months ended September 30, 2013 with a slight decrease of $73,000, or 6.4%. Earnings per basic and diluted common share were both $0.15 for the three months ended September 30, 2014 and 2013. The decrease in net income was due primarily to decreases in net interest income and noninterest income and an increase in income tax expense, partially offset by a reversal in provision for loan losses and a decrease in noninterest expense. Excluding merger related expenses of $415,000, our net income would have been $1.5 million.

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Interest Income. Interest income decreased $230,000, or 2.8%, to $8.1 million for the three months ended September 30, 2014 from $8.3 million for the three months ended September 30, 2013. The decline in interest income was primarily due to decreases in interest and fees on loans.

Interest and fees on loans decreased $302,000, or 3.8%, to $7.7 million for the three months ended September 30, 2014 from $8.0 million for the three months ended September 30, 2013. The primary reason for the decrease was a decline of 19 basis points in the average yield on loans from 4.54% for the three months ended September 30, 2013 to 4.35% for the three months ended September 30, 2014. The decrease in the average yield on loans was primarily caused by lower yields earned on new loan originations and payoffs of higher yielding seasoned loans during the current period as a result of the low interest rate environment.

Interest Expense. Interest expense increased $30,000, or 1.8%, to $1.7 million for the three months ended September 30, 2014 from $1.6 million for the three months ended September 30, 2013 as a result of an increase in interest expense on borrowings. The increase reflected a higher average balance of deposits and borrowings during the three months ended September 30, 2014, offset by a reduction in the average cost of funds on deposits as a result of continuing low interest rates.

Interest expense on deposits decreased $33,000, or 2.4%, to $1.4 million during the three months ended September 30, 2014 as compared to the same period last year. The primary reason for the decrease was a six basis point decline in the average cost of deposits from 0.96% for the three months ended September 30, 2013 to 0.90% for the three months ended September 30, 2014 due to the downward repricing of deposits in the low interest rate environment partially offset by an increase of $22.5 million in the average balance of deposits to $601.1 million for the three months ended September 30, 2014 from $578.5 million for the three months ended September 30, 2013. The increase in the average balance of deposits was a result of continued growth from the promotion of the interest-bearing checking product.

Interest expense on borrowings increased $63,000 or 25.3%, to $312,000 during the three months ended September 30, 2014 as compared to $249,000 for the same period last year. The increase was primarily attributable to a higher average balance of borrowings resulting from a $25.0 million increase in FHLB advances during the second quarter of fiscal 2014 at a weighted average cost of 1.38%, partially offset by a repayment of $20.0 million in FHLB advances that matured during the three months ended September 30, 2014 at a weighted average cost of 0.85%.

Provision for Loan Losses. During the quarter ended September 30, 2014, a $350,000 reversal of provision for loan losses was recorded as compared to no provision for loan losses for the quarter ended September 30, 2013. The improvement in the provision was primarily a result of recoveries as well as continued asset quality improvement evidenced by declining delinquency ratios and a lower level of criticized and non-performing loans during the three months ended September 30, 2014 compared to the same period last year. Net recoveries of $100,000 recorded during the quarter ended September 30, 2014 resulted in annualized net recoveries of 0.06% of average outstanding loans for the quarter ended September 30, 2014 as compared to annualized net charge-offs of 0.09% of average outstanding loans for the same period last year. Non-performing assets decreased to $7.4 million, or 0.86% of total assets at September 30, 2014 as compared to $7.9 million, or 0.90% of total assets at June 30, 2014 and $13.5 million, or 1.88% of total assets at September 30, 2013. Delinquent loans 60 days or more past due were $248,000, or 0.04% of total loans at September 30, 2014 as compared to $1.1 million, or 0.16% of total loans at June 30, 2014 and $6.4 million, or 0.89% of total loans at September 30, 2013. The decrease in delinquent loans at September 30, 2014 as compared to June 30, 2014 was primarily attributable to pay-offs, a loan of $399,000 brought current , and a loan of $301,000 transferred to REO. Loans 30 to 59 days delinquent totaled $2.6 million, or 0.38% of total loans at September 30, 2014, as compared to $3.3 million, or 0.47% of total loans at June 30, 2014 and $430,000, or 0.06% of total loans at September 30, 2013. Loans 30 to 59 days delinquent were either criticized or classified assets. Some loans 30 to 59 days delinquent were individually evaluated for impairment and others were collectively evaluated for impairment with additional qualitative adjustments factored in due to loan classification.

The reversal of provision for loan losses was comprised of a $149,000 reduction in provision on one-to-four family loans, a $271,000 reduction in provision on multi-family loans, a $201,000 reduction in provision on commercial real estate loans, a $232,000 provision on automobile loans, and a $39,000 provision on other loans. The decrease in provision on one-to-four family residential loans was primarily due to a decline in the allowance for loan losses allocated to loans individually evaluated. The decrease in provision on multi-family loans was primarily due to a lower level of classified multi-family loans, a decline in the overall historical loss factors on multi-family loans collectively evaluated for impairment, and a decrease in the balance of multi-family loans collectively evaluated for impairment. The decrease in provision on commercial real estate loans was primarily due to a recovery of $250,000 on an impaired commercial real estate loan which was paid off during the three months ended September 30, 2014. The increase in provision on automobile loans was primarily caused by charge-offs and an increase in the balance of automobile loans collectively evaluated for impairment. The provision reflects management s continuing assessment of the credit quality of Simplicity s loan portfolio, which is affected by various trends, including current economic conditions.

Noninterest Income. Our noninterest income decreased $69,000, or 4.7%, to $1.4 million for the three months ended September 30, 2014 as compared to $1.5 million for the three months ended September 30, 2013 due primarily to decreases in the fair values of mortgage banking derivative assets, partially offset by an increase in service charges and fees primarily attributable to higher mortgage loan servicing fee income as well as higher service charge income on non-interest bearing demand deposits. Management periodically reviews service charge rates to compensate for services provided while still maintaining a competitive position.

Noninterest Expense. Our noninterest expense decreased by $192,000, or 3.1%, to $6.1 million for the three months ended September 30, 2014 primarily due to decreases in advertising and promotional expense of $149,000, other operating expense of $144,000, ATM expense of $78,000, salaries and benefits expense of $76,000 and a net gain on REO foreclosure expenses and sales, gains and losses of $74,000, partially offset by increases in legal fees of $142,000 and professional services expense of $159,000 related to the recently announced proposed merger.

Advertising and promotional expenses decreased $149,000, or 53.0%, to $132,000 for the three months ended September 30, 2014 as compared to $281,000 for the same period last year. The decrease was primarily due to the overall reduction in branding and marketing campaign expenses as Simplicity manages more marketing initiatives internally.

Other operating expense decreased $144,000, or 30.1%, to $334,000 for the three months ended September 30, 2014 as compared to $478,000 for the same period last year. The decrease was due primarily to decreases in the fair values of mortgage-banking derivatives liabilities and lower expenses in travel and conferences, personnel, supplies, and workers compensation insurance.

ATM expense decreased $78,000, or 13.5%, to $500,000 for the three months ended September 30, 2014 as compared to $578,000 for the same period last year primarily due to removal of older models of ATMs in service in the prior fiscal period.

Salaries and benefits expense decreased $76,000, or 2.5%, to $2.9 million for the three months ended September 30, 2014 as compared to $3.0 million for the same period last year primarily due to a decrease in the number of full-time equivalent employees.

REO foreclosure expenses and sales, gains and losses yielded a net gain of $46,000 for the three months ended September 30, 2014, as compared to $28,000 in net expense for the same period last year primarily due to a net gain on sale of a REO property of $62,000 offset by foreclosure expenses.

Legal fees increased $142,000, or 295.8%, to $190,000 for the three months ended September 30, 2014 as compared to $48,000 for the same period last year. Professional services expense increased $159,000, or 31.4%, to $666,000 for the three months ended September 30, 2014 as compared to $507,000 for the same period last year. The increases were primarily due to $165,000 in legal fees and $250,000 in consulting expense related to the merger.

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Income Tax Expense. Income tax expense increased $286,000, or 42.3% to $962,000 for the three months ended September 30, 2014 as compared to $676,000 for the three months ended September 30, 2013. The effective tax rates were 47.2% and 37.0% for the three months ended September 30, 2014 and 2013, respectively. This higher effective tax rate for the three months ended September 30, 2014 as compared to the same period last year was primarily the result of non-deductible professional services and legal fees associated with the merger transaction, the termination of the California enterprise zone tax deduction as well