

HomeStreet, Inc.  
Form PREM14A  
December 10, 2014  
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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

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))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

**HomeStreet, Inc.**

**(Name of Registrant as Specified In Its Charter)**

Payment of Filing Fee (Check the appropriate box):

- .. No fee required.
- x 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:

Common stock of Simplicity Bancorp Inc., par value \$0.01 per share

2) Aggregate number of securities to which transaction applies:

a) 7,393,308 shares of Simplicity common stock;

b) 88,932 options to purchase shares of Simplicity common stock that are in-the-money, with a weighted average exercise price of \$11.21 per share; and

c) At an assumed average closing price of \$16.335 per share for HomeStreet common stock (as described below), an additional 87,691 options to purchase Simplicity common stock having an exercise price greater than \$16.335 per share will be cancelled in the transaction without payment of any consideration.

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):

So long as the average closing price (as defined in the merger agreement) of HomeStreet, Inc. common stock is between \$15 and \$20, the merger agreement sets forth (a) an exchange rate of one share of HomeStreet, Inc. common stock, no par value, for each share of Simplicity common stock outstanding at the closing of the transaction and (b) payment of the difference between the average closing price and the exercise price on a per-share basis for each option that is in-the-money at the closing of the transaction. For purposes of this preliminary proxy statement, in accordance with Exchange Act Rule 0-11(a)(4), we have used \$16.335, which was the average of the high and low price of HomeStreet common stock on December 5, 2014, as the value of HomeStreet common stock to be issued in the merger and the value to be paid for options that are in-the-money. The actual average closing price of HomeStreet common stock on the closing date may be higher or lower than \$16.335 per share, as described in this proxy statement.

4) Proposed maximum aggregate value of transaction:

\$121,239,619.42

5) Total Fee Paid:

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\$14,088, half of which will be paid by HomeStreet Inc. and half of which will be paid by Simplicity Bancorp, Inc. in accordance with Exchange Act Rule 0-11(c)(3).

- “ Fee paid previously with preliminary materials.
- “ 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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December , 2014

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 , 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

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**NOTICE OF SPECIAL MEETING OF SHAREHOLDERS**

**To be Held on January , 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 , 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 , 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

December , 2014

**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 \_\_\_\_\_, 2015: This joint proxy statement, as well as HomeStreet s annual and periodic reports, are available on HomeStreet s website at [ir.homestreet.com](http://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](http://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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December 1, 2014

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 Hotel Pasadena, located at 168 South Los Robles, Pasadena, California 91101, at 5:30 p.m., local time, on January 1, 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 January , 2015**

You are hereby notified of a special meeting of stockholders of Simplicity Bancorp, Inc., a Maryland corporation ( Simplicity ), that will be convened at 5:30 p.m., Pacific Standard Time, on January , 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 , 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

December , 2014



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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 December 1, 2014. 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

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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.

<b>Terms</b>	<b>Page</b>	<b>Section</b>
<u>Effect on Capital Stock.</u>	5	Summary of the Transaction The Transaction.
	111	The Merger Summary of the Merger Merger Consideration; Conversion of Shares.
<u>Fractional Shares.</u>	112	The Merger Summary of the Merger Fractional Shares.
<u>Dissenters' Rights.</u>	8	Summary of the Transaction Dissenters Rights.
	113	The Merger Summary of the Merger Dissenters' Rights.
<u>Expected Closing.</u>	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.**

<b>Terms</b>	<b>Page</b>	<b>Section</b>
<u>Representations and Warranties.</u>	6	Summary of the Transaction Representations and Warranties.

	114	The Merger	Summary of the Merger	Representations and Warranties.
<u>Actions Pending Acquisition.</u>	115	The Merger	Summary of the Merger	Covenants and Agreements; Regulatory Matters; Employee Benefit Matters; Certain Additional Covenants.
<u>Conditions to Consummation of the Merger.</u>	7	Summary of the Transaction	Closing Conditions.	
	128	The Merger	Summary of the Merger	Conditions to Complete the Merger.
<u>Termination.</u>	7	Summary of the Transaction	Termination and Breakup Fees; Specific Performance.	
	129	The Merger	Summary of the Merger	Termination of the Merger Agreement; Effect of Termination; Termination Fees; Specific Performance.

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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 \_\_\_\_\_ shares of HomeStreet common stock outstanding and held by approximately \_\_\_\_\_ 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 \_\_\_\_\_ shares of Simplicity common stock outstanding and held by approximately \_\_\_\_\_ 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.**

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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 4<sup>th</sup> 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 4<sup>th</sup> 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 4<sup>th</sup> 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	5:30 p.m. Pacific Standard Time
, January , 2015	, January , 2015
Hilton Hotel	Hilton Pasadena Hotel
1301 Sixth Avenue	168 South Los Robles

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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 320 West Street, Suite 750, Los Angeles, California 90013, at a.m. Pacific Standard Time on January , 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

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common stock that are to be issued as merger consideration. At the Fairness Hearing, 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.**  
**601 Union Street, Suite 2000**  
**Seattle, WA 98101**  
**(206) 623-3050**

**Simplicity Bancorp, Inc.**  
**1359 N. Grand**  
**Covina, California 91724**  
**(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 ( DU<sup>®</sup>) 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

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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.

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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 , 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 , 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 % of HomeStreet's outstanding common stock based on the number of shares of HomeStreet common stock outstanding as of December , 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

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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**

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.

**Covenants**

**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

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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 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;

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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)<sup>1</sup> 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

<sup>1</sup> DUS® is a registered trademark of Fannie Mae.

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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 14, 2014 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 January 14, 2014 at 5:30 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?***

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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

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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.*

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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.

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*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?***

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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 \_\_\_\_\_ 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 \_\_\_\_\_ 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?***

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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](mailto: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](mailto:ir@homestreet.com)



**Table of Contents****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)	<b>At or For the Nine Months Ended September 30,</b>		<b>At or for the Year Ended December 31,</b>				
	<b>2014</b>	<b>2013</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
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)

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Net income (loss)	\$ 16,638	\$ 24,670	\$ 23,809	\$ 82,126	\$ 16,119	\$ (34,247)	\$ (110,276)
Basic income (loss) per common share <sup>(1)</sup>	\$ 1.12	\$ 1.72	\$ 1.65	\$ 6.17	\$ 2.98	\$ (6.34)	\$ (20.41)
Diluted income (loss) per common share <sup>(1)</sup>	\$ 1.11	\$ 1.67	\$ 1.61	\$ 5.98	\$ 2.80	\$ (6.34)	\$ (20.41)
Common shares outstanding <sup>(1)</sup>	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 <sup>(2)</sup>	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 <sup>(2)</sup>	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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	<b>At or For the Nine Months Ended September 30,</b>		<b>At or for the Year Ended December 31,</b>				
(dollars in thousands, except share data)	<b>2014</b>	<b>2013</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
<b>Financial position (averages):</b>							
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
<b>Financial performance:</b>							
Return on average shareholders equity <sup>(3)</sup>	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 <sup>(4)</sup>	3.50%	3.12% <sup>(5)</sup>	3.17% <sup>(5)</sup>	2.89%	2.36%	1.50%	1.04%
Efficiency ratio <sup>(6)</sup>	89.23%	82.14%	86.54%	61.45%	86.82%	97.24%	104.10%
<b>Asset quality:</b>							
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% <sup>(7)</sup>	1.61%	1.26% <sup>(7)</sup>	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 <sup>(8)</sup>	\$ 19,906 <sup>(9)</sup>	\$ 26,753	\$ 25,707 <sup>(9)</sup>	\$ 29,892	\$ 76,484	\$ 113,210	\$ 374,218

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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
<b>Selected Financial Condition Data (dollars in thousands):</b>							
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
<b>Selected Operating Data (dollars in thousands, except share data):</b>							
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

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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 <sup>(1)</sup>	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 <sup>(2)</sup>	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 <sup>(3)</sup>	2.81%	3.14%	2.95%	3.01%	3.16%	3.22%	3.17%
Net interest margin <sup>(4)</sup>	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 <sup>(5)</sup>	60.86%	40.59%	59.88%	35.45%	29.54%	43.06%	42.32%
Allowance for loan losses to total loans <sup>(5)(6)</sup>	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%
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**Capital Ratios:**

Equity to total assets at end of year	15.93%	17.26%	15.57%	16.77%	16.69%	18.38%	10.93%
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Average equity to average assets	15.68%	17.03%	16.45%	16.70%	17.23%	15.06%	10.51%
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Tier 1 leverage (Bank only)	14.59%	14.25%	14.13%	15.28%	13.52%	13.67%	9.42%
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Tier 1 risk-based (Bank only)	22.37%	20.18%	20.89%	22.87%	19.90%	20.79%	13.48%
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Total risk-based (Bank only)	23.15%	21.12%	21.66%	23.85%	21.10%	21.87%	14.73%
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**Other Data:**

Number of branches	7	7	7	7	9	9	9
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Number of ATMs	45	57	45	58	58	58	57
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Number of loans	7,958	6,972	8,071	7,089	6,623	5,838	7,219
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Number of deposit accounts	58,259	63,427	59,555	65,085	68,726	67,317	67,439
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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
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(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.

	<b>At or for the Year Ended June 30, (Dollars in thousands)</b>	
	<b>2011</b>	<b>2010</b>
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;

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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**

	<b>Homestreet Historical</b>	<b>Simplicity Historical</b>	<b>Pro Forma Merger Adjustments</b>	<b>Notes</b>	<b>Pro Forma Combined</b>
(dollars in thousands)					
<b>Assets</b>					
Cash and cash equivalents	\$ 34,687	\$ 79,101	\$ (12,571)	<b>A</b>	\$ 101,217
Investment securities	449,948	54,406	11	<b>B</b>	504,365
Loans held for sale	698,111	3,116			701,227
Loans held for investment	1,986,609	697,813	(15,587)	<b>C</b>	2,668,835
Less: allowance for loan and lease losses	(21,847)	(4,330)	4,330	<b>D</b>	(21,847)
Loans held for investment, net	1,964,762	693,483	(11,257)		2,646,988
Mortgage servicing rights	124,593	850	342	<b>E</b>	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)	<b>F</b>	12,669
Other assets	101,385	19,060	11,807	<b>G</b>	132,252
Total assets	\$ 3,474,656	\$ 863,351	\$ (14,894)		\$ 4,323,113
<b>Liabilities</b>					
Deposits	2,425,458	656,542	5,920	<b>H</b>	3,087,920
Federal Home Loan Bank advances	598,590	65,000	1,066	<b>I</b>	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
<b>Shareholders' equity</b>					
Preferred stock					
Common stock	511	74	(74)	<b>J</b>	511
Additional paid-in capital	96,650	67,833	59,854	<b>K</b>	224,337

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

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**Unaudited Pro Forma Condensed Combined Statement of Income for the  
Nine Months Ended September 30, 2014**

	<b>Homestreet Historical</b>	<b>Simplicity Historical</b>	<b>Pro Forma Merger Adjustments</b>	<b>Notes</b>	<b>Pro Forma Combined</b>
(dollars in thousands, except share data)					
<b>Interest income:</b>					
Loans	\$ 71,865	\$ 23,941	\$ 2,638	<b>O</b>	\$ 98,444
Investment securities	8,199	544	(1)	<b>P</b>	8,742
Other interest income	449	414			863
<b>Total interest income</b>	<b>80,513</b>	<b>24,899</b>	<b>2,637</b>		<b>108,049</b>
<b>Interest expense:</b>					
Deposits	7,080	3,895	(1,568)	<b>Q</b>	9,407
Federal Home Loan Bank advances	1,366	973	(266)	<b>R</b>	2,073
Securities sold under agreements to repurchase	7				7
Long-term debt	851				851
Other interest expense	42				42
<b>Total interest expense</b>	<b>9,346</b>	<b>4,868</b>	<b>(1,834)</b>		<b>12,380</b>
<b>Net interest income</b>	<b>71,167</b>	<b>20,031</b>	<b>4,471</b>		<b>95,669</b>
<b>Provision (reversal of provision) for credit losses</b>	<b>(1,500)</b>	<b>(750)</b>			<b>(2,250)</b>
<b>Net interest income after provision for credit losses</b>	<b>72,667</b>	<b>20,781</b>	<b>4,471</b>		<b>97,919</b>
<b>Noninterest income:</b>					
Net gain on mortgage loan origination and sale activities	104,946	444			105,390
Mortgage servicing income	24,284	61	36	<b>S</b>	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)	<b>T</b>	2,550
<b>Total noninterest income</b>	<b>134,170</b>	<b>4,176</b>	<b>(334)</b>		<b>138,012</b>

**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)
<b>Total noninterest expense</b>	<b>183,220</b>	<b>18,414</b>	<b>540</b>		<b>202,174</b>
Income before income taxes	23,617	6,543	3,597		33,757
Income tax expense	6,979	2,643	1,511	V	11,133
<b>Net Income</b>	<b>\$ 16,638</b>	<b>\$ 3,900</b>	<b>\$ 2,086</b>		<b>\$ 22,624</b>
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**

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

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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
<b>Total noninterest expense</b>	<b>229,495</b>	<b>24,824</b>	<b>1,040</b>		<b>255,359</b>
Income before income taxes	34,794	9,807	5,856		50,457
Income tax expense	10,985	3,597	2,459	V	17,041
<b>Net Income</b>	<b>\$ 23,809</b>	<b>\$ 6,210</b>	<b>\$ 3,397</b>		<b>\$ 33,416</b>
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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**Table of Contents****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.

**Table of Contents****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.

	<b>September 30, 2014</b>
(dollars in thousands)	
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
<b>Total pro forma purchase price</b>	<b>\$ 128,232</b>
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
<b>Total assets acquired</b>	<b>\$ 860,304</b>
Fair value of liabilities assumed:	
Deposits	\$ 662,462
Federal Home Loan Bank advances	66,066
Other liabilities	4,268
<b>Total liabilities assumed</b>	<b>\$ 732,796</b>

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**

<b>Balance Sheet</b>	<b>At September 30, 2014</b>	
(dollars in thousands)		
<b>A Adjustments to cash and cash equivalents</b>		
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>B Adjustment to investment securities</b>		
To reflect estimated fair value at merger date based on current market for similar assets.	\$	11
<b>C Adjustment to loans held for investment</b>		
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)
<b>D Adjustment to allowance for loan and lease losses</b>		
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
<b>E Adjustment to mortgage servicing rights</b>		
To reflect estimated fair value at merger date based on current market rates for similar assets.	\$	342
<b>F Adjustments to goodwill</b>		
To remove Simplicity goodwill at merger date.	\$	(3,950)
To reflect the goodwill associated with the merger.		724
	\$	(3,226)
<b>G Adjustments to other assets</b>		
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)

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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



**Table of Contents****Balance Sheet (continued)****At September 30, 2014**

(dollars in thousands)

**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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<b>Income Statement</b>	<b>Nine Months Ended September 30, 2014</b>	<b>Year Ended December 31, 2013</b>
(amounts in thousands, except share data)		
<b>O</b> 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
<b>P</b> 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)
<b>Q</b> 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)
<b>R</b> 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)
<b>S</b> 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
<b>T</b> 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)
<b>U</b> 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
<b>V</b> 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
<b>W</b> 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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	<b>Nine Months Ended September 30, 2014</b>	<b>Year Ended December 31, 2013</b>
<b>Income Statement (continued)</b> (amounts in thousands, except share data)		
<b>X</b> 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)

**Table of Contents****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 [REDACTED], 2014 is [REDACTED]. 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.

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

	Market Price Range		Dividends
	High	Low	
Year ended June 30, 2015			
Quarter ended September 30, 2014	\$ 17.75	\$ 15.80	\$ 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 [REDACTED], 2014, the closing price was \$ [REDACTED] 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 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).

	Market Price Range		Dividends
	High	Low	

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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
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

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As of December 31, 2014, there were 1,000,000 shareholders of record of our common stock.

**Comparative Pro Forma Per-Share Data**

	HomeStreet	Simplicity	Homestreet Pro Forma Combined
<b>Basic Earnings</b>			
Nine months ended September 30, 2014	\$ 1.12	\$ 0.55	\$ 1.05
Year ended December 31, 2013	\$ 1.65	\$ 0.81	\$ 1.53
<b>Diluted Earnings</b>			
Nine months ended September 30, 2014	\$ 1.11	\$ 0.55	\$ 1.04
Year ended December 31, 2013	\$ 1.61	\$ 0.81	\$ 1.50
<b>Cash Dividends Paid</b>			
Nine months ended September 30, 2014	\$ 0.11	\$ 0.26	\$ 0.11 <sup>(1)</sup>
Year ended December 31, 2013	\$ 0.33	\$ 0.32	\$ 0.33 <sup>(1)</sup>

(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.*

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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

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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;

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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



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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

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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

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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<sup>®</sup> 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

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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



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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.

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**Table of Contents*****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* 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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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.

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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 MSR, 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 MSR 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 MSR, 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 MSR 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 MSR.

***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



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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.

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***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

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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

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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.



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***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.

**Table of Contents****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 December 1, 2014 to shareholders of record on the December 1, 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 13, 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 1, 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 7,479,964 shares of HomeStreet common stock outstanding and entitled to vote at the HomeStreet special meeting held by approximately 7,479,964 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.





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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.

### ***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 \_\_\_\_\_ shares of HomeStreet common stock, representing approximately \_\_\_\_\_ % 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.

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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.

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***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.

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***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.

***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 14, 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 5:30 p.m., Pacific time, on January 14, 2014.

**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 10,000,000 shares of Simplicity common stock outstanding and entitled to vote at the Simplicity special meeting held by approximately 10,000 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

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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, \_\_\_\_\_ shares of Simplicity common stock, representing approximately \_\_\_\_\_ % 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

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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.

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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 January , 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.

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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. Following the presentation, the board discussed whether a merger might produce a superior return for Simplicity stockholders as compared to remaining independent. 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 potential merger partners. 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 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.

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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

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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 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.

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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, 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).

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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, 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 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

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\$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 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.



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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.

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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. 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.

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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 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.



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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;

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

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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 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

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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

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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.

***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

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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:

	Simplicity	Selected Companies			Average
		Top Quartile	Median	Bottom Quartile	
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%

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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):

	Simplicity	Selected Companies			Average
		Top Quartile	Median	Bottom Quartile	
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%



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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):

	Simplicity	Selected Companies			
		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:

HomeStreet	Selected Companies			
	Top Quartile	Median	Bottom Quartile	Average

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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):

	HomeStreet	Selected Companies			
		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	19.59%	17.63%	14.93%	17.30%
Stock Price/2015 EPS	6.71x	15.39%	14.48%	12.01%	14.53%
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.

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Provident Financial Services, Inc.  
First Merchants Corporation  
SI Financial Group, Inc.  
F.N.B. Corporation

Team Capital Bank  
CFS Bancorp, Inc.  
Newport Bancorp, Inc.  
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):

	Proposed Merger	Top Quartile	Selected Transactions		
			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

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First PacTrust Bancorp, Inc.

Opus Bank

Opus Bank

Beach Business Bank

RMG Capital Corporation

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):

	Proposed Merger	Top Quartile	Selected Transactions		
			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.	Interinvest 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.



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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):

	Proposed Merger	Top Quartile	Selected Transactions		
			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. 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:

	<b>Simplicity Percentage</b>
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	14.8%
2015 Estimated Earnings	9.8%
2016 Estimated Earnings	10.1%
Market Capitalization as of 9/24/2014 close	31.7%
Ownership at 1.000x Exchange Ratio	33.1%

**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 be dilutive to HomeStreet's 2015 and 2016 estimated EPS and HomeStreet's estimated closing book value per share and closing tangible book value per share as of December 31, 2014. 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%. 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. 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

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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. Updated internal financial forecasts prepared by Simplicity's management were also reviewed by Simplicity's board of directors and KBW. 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.

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

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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):

Selected Financial Data	As of and for the year Ended June 30,				
	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	4,039	4,627	4,728	4,832	4,939
Earnings Per Share	0.58	0.66	0.68	0.69	0.71

**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 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**

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**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;

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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

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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 <sup>(1)</sup>	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 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**

	HomeStreet	Simplicity	Combined	Contribution Percentage	
				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%

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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.

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***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.  
BSB Bancorp, Inc.  
Cape Bancorp, Inc.  
Charter Financial Corporation  
Clifton Bancorp Inc.

**Western U.S. Banks and Thrifts**

Bank of Commerce Holdings  
Central Valley Community Bancorp

First Financial Northwest, Inc.  
Fox Chase Bancorp, Inc.  
NASB Financial, Inc.  
Ocean Shore Holding Co.  
Provident Financial Holdings, Inc.

Pacific Continental Corporation  
Provident Financial Holdings, Inc.

CU Bancorp  
First Financial Northwest, Inc.  
Heritage Commerce Corp  
Northrim BanCorp, Inc.  
Oak Valley Bancorp

Riverview Bancorp, Inc.  
Sierra Bancorp  
Timberland Bancorp, Inc.  
United Security Bancshares

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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.

	Simplicity	Selected Company Group Median	
		U.S. Thrfts	Western U.S. Banks and Thrfts
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 <sup>(1)</sup>	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 <sup>(1)</sup>	0.62%	0.57%	1.05%
Latest Twelve Months Core Return on Average Equity <sup>(1)</sup>	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 <sup>(2)</sup> / 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%.

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%.

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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;

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.

**Table of Contents****U.S. Thrift Transactions**

	<b>HomeStreet/ Simplicity</b>	<b>Minimum</b>	<b>Median</b>	<b>Maximum</b>
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 <sup>(1)</sup>	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 <sup>(2)</sup>	-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**

	<b>HomeStreet/ Simplicity</b>	<b>Minimum</b>	<b>Median</b>	<b>Maximum</b>
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 <sup>(1)</sup>	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 <sup>(2)</sup>	-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 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

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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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**Table of Contents****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

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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

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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;

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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;

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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

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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, \_\_\_\_\_ shares of Simplicity's common stock (excluding shares that may be acquired upon the exercise of stock options), representing approximately \_\_\_\_\_ % 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:

<b>Executive Officer/Director of Simplicity</b>	<b>Simplicity Stock Options (#)</b>	<b>Weighted-Average Exercise Price (\$)</b>
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**

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	(#)
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 to 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.

<b>Executive</b>	<b>Merger-Related Executive Compensation</b>						<b>Total</b>
	<b>Cash</b>	<b>Equity</b>	<b>Pension/NQDC</b>	<b>Perquisites/ Benefits</b>	<b>Tax</b>	<b>Other</b>	
	<b>(\$)<sup>(1)</sup></b>	<b>(\$)<sup>(2)</sup></b>	<b>(\$)</b>	<b>(\$)<sup>(3)</sup></b>	<b>(\$)</b>	<b>(\$)<sup>(4)</sup></b>	<b>(\$)</b>
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.

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- (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

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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,

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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

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(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;

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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

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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.

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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 further asserts that HomeStreet aided and abetted Simplicity's directors' alleged breaches of fiduciary duty. On the basis of these assertions the plaintiff seeks, 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.

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### *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 submitted a request for a waiver of such application pursuant to Federal Reserve regulations. If the Federal Reserve does not grant the waiver, HomeStreet would be required to file an application seeking approval from the Federal Reserve for the merger.

### *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.

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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.**

**Table of Contents****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)<sup>1</sup> 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

<sup>1</sup> DUS<sup>®</sup> is a registered trademark of Fannie Mae.

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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 headquartered 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.moody's.com](http://www.moody's.com) and [www.fitchratings.com](http://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 or 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;

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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.

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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.

<i>(in millions)</i>	At December 31,			
	2013	Level 3	2012	Level 3
	Total Balance		Total Balance	
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 MSR's 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.





**Table of Contents*****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,		Percent Change	At or for the Nine Months Ended September 30,		Percent Change
	2014	2013	2014 vs. 2013	2014	2013	2014 vs. 2013
<b>Selected statement of operations data</b>						
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)%
<b>Financial performance</b>						
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% <sup>(1)</sup>	

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**

<i>(in thousands, except per share data and ratios)</i>	<b>Year Ended December 31,</b>	
	<b>2013</b>	<b>2012</b>
<b>Selected statements of operations data</b>		
Total net revenue <sup>(1)</sup>	\$ 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
<b>Financial performance</b>		
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% <sup>(2)</sup>	2.89%
<b>Capital ratios (Bank only)</b>		
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

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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.



**Table of Contents****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.

(in thousands)	Three Months Ended September 30,					
	2014			2013		
	Average Balance	Interest	Average Yield/Cost	Average Balance	Interest	Average Yield/Cost
<b>Assets:</b>						
Interest-earning assets: <sup>(1)</sup>						
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%
<b>Total interest-earning assets</b>	<b>2,952,916</b>	<b>28,949</b>	<b>3.89%</b>	<b>2,474,397</b>	<b>23,926</b>	<b>3.88%</b>
Noninterest-earning assets <sup>(2)</sup>	329,089			311,897		
<b>Total assets</b>	<b>\$ 3,282,005</b>			<b>\$ 2,786,294</b>		
<b>Liabilities and shareholders' equity:</b>						
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%
<b>Total interest-bearing deposits</b>	<b>1,861,164</b>	<b>2,364</b>	<b>0.50%</b>	<b>1,609,242</b>	<b>2,227</b>	<b>0.57%</b>
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	%			%
<b>Total interest-bearing liabilities</b>	<b>2,376,579</b>	<b>3,170</b>	<b>0.53%</b>	<b>2,045,155</b>	<b>2,935</b>	<b>0.57%</b>
Noninterest-bearing liabilities	610,197			469,853		
<b>Total liabilities</b>	<b>2,986,776</b>			<b>2,515,008</b>		
Shareholders' equity	295,229			271,286		

Total liabilities and shareholders equity	\$ 3,282,005	\$ 2,786,294
Net interest income <sup>(3)</sup>	\$ 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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(in thousands)	Nine Months Ended September 30,					
	2014			2013		
	Average Balance	Interest	Average Yield/Cost	Average Balance	Interest	Average Yield/Cost
<b>Assets:</b>						
Interest-earning assets: <sup>(1)</sup>						
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%
<b>Total interest-earning assets</b>	<b>2,777,988</b>	<b>82,002</b>	<b>3.95%</b>	<b>2,347,560</b>	<b>66,234</b>	<b>3.75%</b>
Noninterest-earning assets <sup>(2)</sup>	345,229			280,668		
<b>Total assets</b>	<b>\$ 3,123,217</b>			<b>\$ 2,628,228</b>		
<b>Liabilities and shareholders equity:</b>						
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%
<b>Total interest-bearing deposits</b>	<b>1,880,664</b>	<b>7,080</b>	<b>0.50%</b>	<b>1,563,547</b>	<b>8,093</b>	<b>0.69%</b>
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 <sup>(3)</sup>	4.86% <sup>(3)</sup>
Other borrowings		32	%			%
<b>Total interest-bearing liabilities</b>	<b>2,319,872</b>	<b>9,336</b>	<b>0.54%</b>	<b>1,906,023</b>	<b>11,491</b>	<b>0.79%</b>
Noninterest-bearing liabilities	519,199			446,742		
<b>Total liabilities</b>	<b>2,839,071</b>			<b>2,352,765</b>		
Shareholders equity	284,146			275,463		
<b>Total liabilities and shareholders equity</b>	<b>\$ 3,123,217</b>			<b>\$ 2,628,228</b>		
Net interest income <sup>(4)</sup>		\$ 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% <sup>(3)</sup>



**Table of Contents***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:

<i>(in thousands)</i>	Year Ended December 31,					
	2013			2012		
	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: <sup>(1)</sup>	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 <sup>(2)</sup>						
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 <sup>(4)</sup>		\$ 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%.

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- (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.

**Table of Contents****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.

<i>(in thousands)</i>	<b>Year Ended December 31, 2013 vs. 2012</b>		
	<b>Increase (Decrease) Due to</b>		
	<b>Rate</b>	<b>Volume</b>	<b>Total Change</b>
<b>Assets:</b>			
<b>Interest-earning assets:</b>			
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
<b>Total interest-earning assets</b>	<b>3,338</b>	<b>12,103</b>	<b>8,765</b>
<b>Liabilities:</b>			
<b>Deposits:</b>			
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)
<b>Total interest-bearing deposits</b>	<b>(2,068)</b>	<b>(4,488)</b>	<b>(6,556)</b>
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
<b>Total interest-bearing liabilities</b>	<b>(4,945)</b>	<b>(472)</b>	<b>(5,417)</b>
<b>Total changes in net interest income</b>	<b>\$ 1,607</b>	<b>\$ 12,575</b>	<b>\$ 14,182</b>

**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 MSR's 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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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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**Table of Contents*****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 MSR's 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		Dollar Change	Percent Change	Nine Months Ended		Dollar Change	Percent Change
	September 30, 2014	September 30, 2013			September 30, 2014	September 30, 2013		
<b>Noninterest income</b>								
Net gain on mortgage loan origination and sale activities <sup>(1)</sup>	\$ 37,642	\$ 33,491	\$ 4,151	12%	\$ 104,946 <sup>(2)</sup>	\$ 139,870	\$ (34,924)	(25)%
Mortgage servicing income	6,155	4,011	2,144	53	24,284 <sup>(3)</sup>	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)
<b>Total noninterest income</b>	<b>\$ 45,813</b>	<b>\$ 38,174</b>	<b>\$ 7,639</b>	<b>20%</b>	<b>\$ 134,170</b>	<b>\$ 154,673</b>	<b>\$ (20,503)</b>	<b>(13)%</b>

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		Dollar Change	Percent Change	Nine Months Ended		Dollar Change	Percent Change
	September 30, 2014	September 30, 2013			September 30, 2014	September 30, 2013		
<b>Single family held for sale:</b>								

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Servicing value and secondary market gains <sup>(1)</sup>	\$ 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 <sup>(2)</sup>		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				Nine Months Ended			
	September 30,		Dollar	Percent	September 30,		Dollar	Percent
	2014	2013	Change	Change	2014	2013	Change	Change
Single family mortgage closed loan volume <sup>(1)</sup>	\$ 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 <sup>(1)</sup>	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,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Effect of changes to the mortgage repurchase liability recorded in net gain on mortgage loan origination and sale				

activities:

New loan sales <sup>(1)</sup>	\$ (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				Nine Months Ended			
	September 30, 2014	September 30, 2013	Dollar Change	Percent Change	September 30, 2014	September 30, 2013	Dollar Change	Percent Change
<b>Servicing income, net:</b>								
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 <sup>(1)</sup>	(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
<b>Risk management:</b>								
Changes in fair value of MSRs due to changes in model inputs and/or assumptions <sup>(2)</sup>	899	(2,456)	3,355	(137)	(7,836) <sup>(3)</sup>	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 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 MSR 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		Dollar Change	Percent Change	Nine Months Ended		Dollar Change	Percent Change
	September 30, 2014	September 30, 2013			September 30, 2014	September 30, 2013		
<b>Fees:</b>								
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)
<b>Total depositor and other retail banking fees</b>	<b>\$ 944</b>	<b>\$ 791</b>	<b>\$ 153</b>	<b>19%</b>	<b>\$ 2,676</b>	<b>\$ 2,273</b>	<b>\$ 403</b>	<b>18%</b>

***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:

<i>(in millions)</i>	<b>Year Ended December 31,</b>		<b>Dollar</b>	<b>Percentage</b>
	<b>2013</b>	<b>2012</b>	<b>Change</b>	<b>Change</b>
Net gain on mortgage loan origination and sale activities <sup>(1)</sup>	\$ 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)
<b>Total noninterest income</b>	<b>\$ 190,745</b>	<b>\$ 238,020</b>	<b>\$ (47,275)</b>	<b>(20)%</b>

(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:

<i>(in thousands)</i>	<b>Year Ended December 31,</b>		<b>Dollar</b>	<b>Percentage</b>
	<b>2013</b>	<b>2012</b>	<b>Change</b>	<b>Change</b>
Single family:				
Servicing value and secondary market gains <sup>(1)</sup>	\$ 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
<b>Net gain on mortgage loan origination and sale activities</b>	<b>\$ 164,712</b>	<b>\$ 210,564</b>	<b>\$ (48,852)</b>	<b>(22)%</b>

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:

<i>(in thousands)</i>	<b>Year Ended December 31,</b>		<b>Dollar</b>	<b>Percentage</b>
	<b>2013</b>	<b>2012</b>	<b>Change</b>	<b>Change</b>
Single family mortgage closed loan volume <sup>(1)</sup>	\$ 4,459,649	\$ 4,668,167	\$ (208,518)	(4)%
Single family mortgage interest rate lock commitments <sup>(2)</sup>	\$ 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.

<i>(in thousands)</i>	<b>Year Ended December 31,</b>	
	<b>2013</b>	<b>2012</b>
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 <sup>(1)</sup>		(2,969)
Other changes in estimated repurchase losses <sup>(2)</sup>	\$ (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:

<i>(in thousands)</i>	<b>Year Ended December 31,</b>		<b>Dollar</b>	<b>Percentage</b>
	<b>2013</b>	<b>2012</b>	<b>Change</b>	<b>Change</b>
Servicing income, net:				
Servicing fees and other	\$ 34,173	\$ 27,833	\$ 6,340	23%
Changes in fair value of MSR due to modeled amortization <sup>(1)</sup>	(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 MSR due to changes in model inputs and/or assumptions <sup>(2)</sup>	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.

<i>(in thousands)</i>	<b>Year Ended December 31,</b>		<b>Dollar Change</b>	<b>Percentage Change</b>
	<b>2013</b>	<b>2012</b>		
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.

**Table of Contents****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		Dollar Change	Percent Change	Nine Months Ended		Dollar Change	Percent Change
	September 30, 2014	September 30, 2013			September 30, 2014	September 30, 2013		
<b>Noninterest expense</b>								
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)
<b>Total noninterest expense</b>	<b>\$ 64,158</b>	<b>\$ 58,116</b>	<b>\$ 6,042</b>	<b>10%</b>	<b>\$ 183,220</b>	<b>\$ 170,627</b>	<b>\$ 12,593</b>	<b>7%</b>

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.

**Table of Contents*****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:

<i>(in thousands)</i>	<b>Year Ended December 31,</b>		<b>Dollar</b>	<b>Percentage</b>
	<b>2013</b>	<b>2012</b>	<b>Change</b>	<b>Change</b>
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.

(in thousands)	At September 30, 2014		At December 31, 2013	
	Fair Value	Percent	Fair Value	Percent
<b>Investment securities available for sale:</b>				
<b>Mortgage-backed securities:</b>				
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
<b>Collateralized mortgage obligations:</b>				
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
<b>Total investment securities available for sale</b>	<b>\$ 432,096</b>	<b>100.0%</b>	<b>\$ 481,683</b>	<b>100.0%</b>

*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 MSR's 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.

(in thousands)	At September 30, 2014		At December 31, 2013	
	Amount	Percent	Amount	Percent
<b>Consumer loans</b>				
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
<b>Commercial loans</b>				
Commercial real estate <sup>(1)</sup>	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. Certificate 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:

(in thousands)	At September 30, 2014		At December 31, 2013	
	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.

(in thousands)	At December 31,			
	2013		2012	
	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
<b>Total available for sale</b>	<b>\$ 501,395</b>	<b>\$ 481,683</b>	<b>\$ 403,896</b>	<b>\$ 416,329</b>

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.

(in thousands)	At December 31, 2013									
	Within one year		After one year through five years		After five years through ten years		After ten years		Total	
	Weighted		Weighted		Weighted		Weighted		Weighted	
	Fair Value	Average Yield	Fair Value	Average Yield	Fair Value	Average Yield	Fair Value	Average Yield	Fair Value	Average Yield

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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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(in thousands)	At December 31, 2012										
	Within one year		After one year Through five years		After five years through ten years		After ten years		Total		
	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

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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.

	2013		2012		At December 31, 2011		2010		2009	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Consumer loans:										
Single family	\$ 904,913	47.7%	\$ 673,865	50.3%	\$ 496,934	36.9%	\$ 526,462	32.7%	\$ 590,695	28.4%
Home 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
Commercial loans:										
Commercial real estate <sup>(1)</sup>	477,642	25.1	361,879	27.0	402,139	29.8	426,879	26.6	449,373	21.6
Multifamily	79,216	4.2	17,012	1.3	56,379	4.2	104,497	6.5	85,522	4.1
Construction/development	130,465	6.9	71,033	5.3	173,405	12.9	285,131	17.7	631,525	30.4
Commercial business	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%
Net deferred loan fees and discounts	(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	
Allowance for loan 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.

(in thousands)	At December 31,			
	2013		2012	
	Amount	Percent	Amount	Percent
<b>Adjustable-rate loans:</b>				
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 <sup>(1)</sup>	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
<b>Total adjustable-rate loans</b>	<b>1,138,412</b>	<b>59.9</b>	<b>696,261</b>	<b>52.0</b>
<b>Fixed-rate loans:</b>				
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 <sup>(1)</sup>	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
<b>Total fixed-rate loans</b>	<b>760,528</b>	<b>40.1</b>	<b>643,850</b>	<b>48.0</b>
<b>Total loans held for investment</b>	<b>1,898,940</b>	<b>100.0%</b>	<b>1,340,111</b>	<b>100.0%</b>
<b>Less:</b>				
Deferred loan fees	(3,219)		(3,576)	
Allowance for loan losses	(23,908)		(27,561)	
<b>Loans held for investment, net</b>	<b>\$ 1,871,813</b>		<b>\$ 1,308,974</b>	

(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.

(in thousands)	At December 31, 2013				Loans due after one year by rate characteristic	
	Within one year	After one year through five years	After five years	Total	Fixed-rate	Adjustable-rate
<b>Consumer:</b>						
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
<b>Commercial:</b>						
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

(in thousands)	At December 31, 2012				Loans due after one year by rate characteristic	
	Within one year	After one year through five years	After five years	Total	Fixed-rate	Adjustable-rate
<b>Consumer:</b>						
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
<b>Commercial:</b>						
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.

(in thousands)	King <sup>(1)</sup>	Puget Sound		Washington		Kitsap/Jefferson/ Clallam <sup>(1)</sup>	
		Snohomish <sup>(3)</sup>	Pierce <sup>(1)</sup>	Thurston <sup>(3)</sup>	Vancouver & Other <sup>(2)(3)</sup>	Spokane <sup>(2)(3)</sup>	
<b>Consumer:</b>							
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
<b>Commercial:</b>							
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
<b>Total loans</b>	<b>\$ 967,559</b>	<b>\$ 175,967</b>	<b>\$ 119,643</b>	<b>\$ 52,211</b>	<b>\$ 64,012</b>	<b>\$ 152,712</b>	<b>\$ 27,907</b>

(in thousands)	Idaho		Oregon		Hawaii	Other <sup>(4)</sup>	Total
	Boise <sup>(2)</sup>	Portland <sup>(2)(3)</sup>	Bend <sup>(2)(3)</sup>	Salem <sup>(2)</sup>			
<b>Consumer:</b>							
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
<b>Commercial:</b>							
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
<b>Total loans</b>	<b>\$ 15,012</b>	<b>\$ 150,409</b>	<b>\$ 41,499</b>	<b>\$ 23,599</b>	<b>\$ 49,026</b>	<b>\$ 59,384</b>	<b>\$ 1,898,940</b>

(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.

(in thousands)	King <sup>(1)</sup>	Puget Sound			Washington		Kitsap/Jefferson/ Clallam <sup>(1)</sup>
		Snohomish <sup>(3)</sup>	Pierce <sup>(1)</sup>	Thurston <sup>(3)</sup>	Vancouver & Other <sup>(2)(3)</sup>	Spokane <sup>(2)(3)</sup>	
<b>Consumer:</b>							
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
<b>Commercial:</b>							
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
<b>Total loans</b>	<b>\$ 627,112</b>	<b>\$ 191,608</b>	<b>\$ 117,322</b>	<b>\$ 50,607</b>	<b>\$ 43,366</b>	<b>\$ 37,629</b>	<b>\$ 28,374</b>

(in thousands)	Idaho		Oregon		Hawaii	Other <sup>(4)</sup>	Total
	Boise <sup>(2)</sup>	Portland <sup>(2)(3)</sup>	Bend <sup>(2)(3)</sup>	Salem <sup>(2)</sup>			
<b>Consumer:</b>							
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
<b>Commercial:</b>							
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
<b>Total loans</b>	<b>\$ 7,916</b>	<b>\$ 115,965</b>	<b>\$ 39,718</b>	<b>\$ 27,735</b>	<b>\$ 45,922</b>	<b>\$ 6,837</b>	<b>\$ 1,340,111</b>

- (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.

(in thousands)	December 31, 2013						Total
	Prior to 2000	2000-2004	2005-2008	2009-2010	2011-2012	2013	
<b>Consumer</b>							
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
<b>Commercial</b>							
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
<b>Total loans</b>	<b>\$ 7,652</b>	<b>\$ 54,386</b>	<b>\$ 550,951</b>	<b>\$ 177,341</b>	<b>\$ 349,212</b>	<b>\$ 759,398</b>	<b>\$ 1,898,940</b>

The following table presents the loan portfolio by loan type and year of origination.

(in thousands)	December 31, 2012						Total
	Prior to 2000	2000-2004	2005-2008	2009-2010	2011	2012	
<b>Consumer</b>							
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
<b>Commercial</b>							
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
<b>Total loans</b>	<b>\$ 8,495</b>	<b>\$ 77,780</b>	<b>\$ 712,306</b>	<b>\$ 171,608</b>	<b>\$ 43,965</b>	<b>\$ 325,957</b>	<b>\$ 1,340,111</b>



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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		
<b>Total loans originated</b>	<b>\$ 5,456,150</b>	<b>\$ 5,156,508</b>
Loans sold:		
Single family	\$ 4,733,473	\$ 4,170,840
Multifamily	104,016	118,805
<b>Total loans sold</b>	<b>\$ 4,837,489</b>	<b>\$ 4,289,645</b>

*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

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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:

(in thousands)	At December 31,	
	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.



**Table of Contents****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 <sup>(1)</sup>	0.61%	0.24%	0.71%	1.25%
Return on equity <sup>(2)</sup>	6.74%	2.45%	7.81%	11.94%
Equity to assets ratio <sup>(3)</sup>	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.

(in thousands)	Year Ended December 31,	
	2013	2012
Return on assets <sup>(1)</sup>	0.88%	3.42%
Return on equity <sup>(2)</sup>	9.56%	38.86%
Equity to assets ratio <sup>(3)</sup>	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				Nine Months Ended			
	September 30,		Change	Percent Change	September 30,		Change	Percent Change
2014	2013	2014			2013			
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 <sup>(1)</sup>	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 <sup>(2)</sup>	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 <sup>(1)</sup>		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)%
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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				Nine Months Ended			
	September 30, 2014	September 30, 2013	Dollar Change	Percent Change	September 30, 2014	September 30, 2013	Dollar Change	Percent Change
<b>Servicing income, net:</b>								
Servicing fees and other	\$ 1,289	\$ 789	\$ 500	63%	\$ 3,196	\$ 2,341	\$ 855	37%
Amortization of multifamily MSR	(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
<b>Total commercial loans serviced for others</b>	<b>\$ 789,786</b>	<b>\$ 816,102</b>

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

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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) <sup>(1)</sup>	3,446	(6,815)
Efficiency ratio <sup>(2)</sup>	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
<b>Servicing income, net:</b>		
Servicing fees and other	\$ 3,174	\$ 3,396
Amortization of multifamily MSR	(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
<b>Commercial</b>		
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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Mortgage Banking segment results are detailed below.

(in thousands)	Three Months Ended				Nine Months Ended			
	September 30,		Change	Percent Change	September 30,		Change	Percent Change
2014	2013	2014			2013			
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 <sup>(1)</sup>								