

HomeStreet, Inc.
Form 10-K
March 17, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2013

OR

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

For the transition period from _____ to _____

Commission file number: 001-35424

HOMESTREET, INC.

(Exact name of registrant as specified in its charter)

Washington
(State or other jurisdiction of
incorporation or organization)
601 Union Street, Ste. 2000
Seattle, WA 98101

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (206) 623-3050

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

Common Stock, no par value

Securities registered pursuant to Section 12(g) of the Act:

None.

91-0186600
(I.R.S. Employer
Identification Number)

Name of each exchange on which registered
NASDAQ Stock Market LLC

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

As of June 28, 2013, the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value of common stock held by non-affiliates was approximately \$248.0 million, based on a closing price of \$21.45 per share of common stock on the NASDAQ Global Select Market on such date. Shares of common stock held by each executive officer and director and by each person known to the Company who beneficially owns more than 5% of the outstanding common stock have been excluded in that such persons may under certain circumstances be deemed to be affiliates. This determination of executive officer or affiliate status is not necessarily a conclusive determination for other purposes.

The number of outstanding shares of the registrant's common stock as of February 28, 2014 was 14,841,290.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information that will be contained in the definitive proxy statement for the registrant's annual meeting to be held in 2014 is incorporated by reference into Part III of this Form 10-K.

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Unless we state otherwise or the content otherwise requires, references in this Form 10-K to “HomeStreet,” “we,” “our,” “us” or the “Company” refer collectively to HomeStreet, Inc., a Washington corporation, HomeStreet Bank (“Bank”), HomeStreet Capital Corporation (“HomeStreet Capital”) and other direct and indirect subsidiaries of HomeStreet, Inc.

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PART 1

FORWARD-LOOKING STATEMENTS

This Form 10-K 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, as amended (the “Securities Act”) and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). These statements relate to our future plans, objectives, expectations, intentions and financial performance, and assumptions that underlie these statements. All statements other than statements of historical fact are “forward-looking statements” for the purposes of these provisions. When used in this Form 10-K, terms such as “anticipates,” “believes,” “continue,” “could,” “estimates,” “expects,” “intends,” “may,” “plans,” “potential,” “predicts,” “should,” or “will” or the negative of those 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 industry trends or actual results, level of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these statements. Our actual results may differ significantly from the results discussed in such forward-looking statements, and we may take actions that differ from our current plans and expectations. The known risks that could cause our results to differ, or may cause us to take actions that are not currently planned or expected, are described in Item 1A, Risk Factors.

Unless required by law, we do not intend to update any of the forward-looking statements after the date of this Form 10-K 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 Form 10-K.

Except as otherwise noted, references to “we,” “our,” “us” or “the Company” refer to HomeStreet, Inc. and its subsidiaries that are consolidated for financial reporting purposes.

ITEM 1 BUSINESS

General

We are a diversified financial services company founded in 1921 and headquartered in Seattle, Washington, serving customers primarily in the Pacific Northwest, California and Hawaii. HomeStreet, Inc. (the “Company”) is principally engaged in real estate lending, including mortgage banking activities, and commercial and consumer banking. Our primary subsidiaries are HomeStreet Bank (the “Bank”) and HomeStreet Capital Corporation. The Bank is a Washington state-chartered savings bank that provides residential 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, loans for residential and commercial real estate construction, and commercial business loans. HomeStreet Capital Corporation, a Washington corporation, originates, sells and services multifamily mortgage loans under the Fannie Mae Delegated Underwriting and Servicing Program (“DUS[®]) (DUS[®] is a registered trademark of Fannie Mae.) in conjunction with HomeStreet Bank. Doing business as HomeStreet Insurance, 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”). At December 31, 2013, we had total assets of \$3.07 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 December 31, 2013, we had a network of 30 bank branches in the Puget Sound, Eastern and Southwest regions of Washington state, Portland, Oregon and Hawaii, as well as 44 stand-alone lending centers located in these same areas and additionally in California; 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 41 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 Form 10-K.

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

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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 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.”

Acquisitions

On November 1, 2013, the Company completed its acquisitions of Fortune Bank (“Fortune”) and YNB Financial Services Corp. (“YNB”), the parent company of Yakima National Bank.

On December 6, 2013, the Company acquired two retail deposit branches and certain related assets from AmericanWest Bank, a Washington state-chartered bank. The branches are located on Bainbridge Island and in West Seattle.

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 has 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 and www.fitchratings.com. Information from these sites is not a part of this report and is not incorporated herein.

On March 5, 2014, the Company announced its intent to sell two pools of residential loans, while retaining the right to service such loans. The first pool is comprised of fixed-rate residential mortgage loans with outstanding principal balances of approximately \$105 million. The second pool is comprised of adjustable rate residential mortgage loans with outstanding principal balances of approximately \$222 million. The mortgage loans subject to these sales are located in Washington, Oregon, Idaho and Hawaii. The \$105 million pool sale is expected to close in March 2014 and the \$222 million pool sale is expected to close in April 2014. These sales are subject to numerous contingencies, including the successful negotiation and execution of final agreements between the parties.

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 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.

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

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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 the Company'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. We are also in the process of growing our consumer banking business in central and eastern Washington through our recent acquisition of YNB, which allowed us to add four retail deposit branches in those regions. 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 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 specialized 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 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.

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Employees

As of December 31, 2013 the Company employed 1,502 full-time equivalent employees compared to 1,099 full-time equivalents at December 31, 2012.

Where You Can Obtain Additional Information

We file annual, quarterly, current and other reports with the Securities and Exchange Commission (the "SEC"). We make available free of charge on or through our website <http://www.homestreet.com> all of these reports (and all amendments thereto), as soon as reasonably practicable after we file these materials with the SEC. Please note that the contents of our website do not constitute a part of our reports, and those contents are not incorporated by reference into this report or any of our other securities filings. You may review a copy of our reports, including exhibits and schedules filed therewith, and obtain copies of such materials at the SEC's Public Reference Room at 100 F Street, NE, Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains a website (<http://www.sec.gov>) that contains reports, proxy and information statements and other information regarding registrants, such as HomeStreet, Inc., that file electronically with the SEC.

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REGULATION AND SUPERVISION

The following is a brief description of certain laws and regulations that are applicable to us. The description of these laws and regulations, as well as descriptions of laws and regulations contained elsewhere in this annual report on Form 10-K, does not purport to be complete and is qualified in its entirety by reference to the applicable laws and regulations.

The bank regulatory framework to which we are subject is intended primarily for the protection of bank depositors and the Deposit Insurance Fund and not for the protection of shareholders or other security holders.

General

The Company is a savings and loan holding company and is regulated by the Board of Governors at the Federal Reserve System (the "Federal Reserve"), and the Washington State Department of Financial Institutions, Division of Banks (the "WDFI"). The Company is required to register and file reports with, and otherwise comply with, the rules and regulations of the Federal Reserve and the WDFI.

The Office of Thrift Supervision, or the OTS, previously was the Company's primary federal regulator. Under the Dodd-Frank Act, the OTS was dissolved on July 21, 2011 and its authority to supervise and regulate the Company and its non-bank subsidiaries was transferred to the Federal Reserve. References to the Federal Reserve in this document should be read to include the OTS prior to the date of the transfer with respect to those functions transferred to the Federal Reserve.

The Bank is a Washington state-chartered savings bank. The Bank is subject to regulation, examination and supervision by the WDFI and the Federal Deposit Insurance Corporation (the "FDIC").

As a result of the recent financial crisis, regulation of the financial services industry has been undergoing major changes. Among these is the Dodd-Frank Act, which makes significant modifications to and expansions of the rulemaking, supervisory and enforcement authority of the federal banking regulators. Some of the changes were effective immediately, but others are being phased in over time. The Dodd-Frank Act requires various regulators, including the banking regulators, to adopt numerous regulations, not all of which have been finalized. Accordingly, in many instances, the precise requirements of the Dodd-Frank Act are not yet known.

Further, new statutes, regulations and guidance are considered regularly that could contain wide-ranging potential changes to the competitive landscape for financial institutions operating and doing business in the United States. We cannot predict whether or in what form any proposed statute, regulation or other guidance will be adopted or promulgated, or the extent to which our business may be affected. Any change in policies, whether by the Federal Reserve, the WDFI, the FDIC, the Washington legislature or the United States Congress, could have a material adverse impact on us and our operations and shareholders. In addition, the Federal Reserve, the WDFI and the FDIC have significant discretion in connection with their supervisory and enforcement activities and examination policies, including, among other things, policies with respect to the Bank's capital levels, the classification of assets and establishment of adequate loan loss reserves for regulatory purposes.

Our operations and earnings will be affected by domestic economic conditions and the monetary and fiscal policies of the United States government and its agencies. In addition to its role as the regulator of savings and loan holding companies, the Federal Reserve has, and is likely to continue to have, an important impact on the operating results of financial institutions through its power to implement national monetary and fiscal policy including, among other things, actions taken in order to curb inflation or combat a recession. The Federal Reserve affects the levels of bank loans, investments and deposits through its control over the issuance of United States government securities, its regulation of the discount rate applicable to member banks and its influence over reserve requirements to which banks are subject. In recent years, in response to the financial crisis, the Federal Reserve has created several innovative programs to stabilize certain financial institutions, to help ensure the availability of credit and to purchase financial assets through programs such as quantitative easing. Quantitative easing has had a significant impact on the market for mortgage-backed securities ("MBS") and by some accounts has stimulated the national economy. We believe these policies have had a beneficial effect on the Company and the mortgage banking industry as a whole. In late 2013, the

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Federal Reserve announced it would begin to scale back its purchases of financial assets. We cannot predict the effects of this tapering. In addition, we cannot predict the nature or impact of future changes in monetary and fiscal policies of the Federal Reserve.

Company Order

The Company previously was subject to an Order to Cease and Desist issued by the OTS on May 18, 2009 and subsequently administered by the Federal Reserve. This order was terminated by the Federal Reserve effective March 26, 2013.

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Consent Agreement/Memorandum of Understanding

The Bank had previously consented to the issuance by the FDIC and the WDFI of an Order to Cease and Desist dated May 8, 2009. The Bank Order was terminated on March 26, 2012. Also on March 26, 2012, the Bank entered into a MOU with the FDIC and the WDFI. The MOU was terminated on December 27, 2012.

Regulation of the Company

General

Because we have made an election under Section 10(1) of the Home Owners' Loan Act ("HOLA") for the Bank to be treated as a "savings association" for purposes of Section 10 of HOLA, the Company is registered as a savings and loan holding company with the Federal Reserve and is subject to Federal Reserve regulations, examinations, supervision and reporting requirements relating to savings and loan holding companies. Among other things, the Federal Reserve is authorized to restrict or prohibit activities that are determined to be a serious risk to the financial safety, soundness or stability of a subsidiary savings bank. Unlike bank holding companies, savings and loan holding companies have not been subject to any specific regulatory capital ratios, although they have been subject to review by the Federal Reserve and approval of capital levels as part of its examination process. However, under the Dodd-Frank Act, the Company will become subject to capital requirements. Our continued ability to use the provisions of Section 10(1) of HOLA - which allow the Company to be registered as a savings and loan holding company rather than as a bank holding company - is conditioned upon the Bank's continued qualification as a lender under the Qualified Thrift Lender test set forth in HOLA. See "- Regulation and Supervision of HomeStreet Bank - Qualified Thrift Lender Test." Since the Bank is chartered under Washington law, the WDFI has authority to regulate the Company generally relating to its conduct affecting the Bank. As a subsidiary of a savings and loan holding company, the Bank is subject to certain restrictions in its dealings with the Company and affiliates thereof.

Numerous provisions of the Dodd-Frank Act affect the Company and its business and operations. Some of the provisions are:

- New capital requirements for savings and loan holding companies.

- All holding companies of depository institutions are required to serve as a source of strength for their depository subsidiaries.

- The Federal Reserve is given heightened authority to examine, regulate and take action with respect to all of a holding company's subsidiaries.

The Company is a unitary savings and loan holding company within the meaning of federal law. Generally, companies that become savings and loan holding companies following the May 4, 1999 grandfather date in the Gramm-Leach-Bliley Act of 1999 may engage only in the activities permitted for financial institution holding companies as well as activities that are permitted for multiple savings and loan holding companies. Because the Company became a savings and loan holding company prior to that grandfather date, the activities in which the Company and its subsidiaries (other than the Bank and its subsidiaries) may engage generally are not restricted by HOLA. If, however, we are acquired by a non-financial company, or if we acquire another savings association subsidiary (and become a multiple savings and loan holding company), we will terminate our "grandfathered" unitary savings and loan holding company status and become subject to certain limitations on the types of business activities in which we could engage. The Company may not engage in any activity or render any service for or on behalf of the Bank for the purpose of or with the effect of evading any law or regulation applicable to the Bank.

Because the Bank is treated as a savings association subsidiary of a savings and loan holding company, we must give the Federal Reserve at least 30 days' advance notice of the proposed declaration of a dividend by the Bank. In addition, the financial impact of a holding company on its subsidiary institution is a matter that is evaluated by the Federal Reserve, and the Federal Reserve has authority to order cessation of activities or divestiture of subsidiaries deemed to pose a threat to the safety and soundness of the Bank.

Capital / Source of Strength

Under the Dodd-Frank Act, capital requirements will be imposed on savings and loan holding companies such as the Company. See "Regulation and Supervision of HomeStreet Bank - Capital and Prompt Corrective Action Requirements - Proposed Capital Regulations."

Regulations and historical practice of the Federal Reserve have required bank holding companies to serve as a “source of strength” for their subsidiary banks. The Dodd-Frank Act codifies this requirement and extends it to all companies that control an insured depository institution. Accordingly, the Company is now required to act as a source of strength for the Bank.

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Restrictions Applicable to Savings and Loan Holding Companies

Federal law prohibits a savings and loan holding company, including the Company, directly or indirectly (or through one or more subsidiaries), from acquiring:

- control (as defined under HOLA) of another savings institution (or a holding company parent) without prior written approval of the Federal Reserve;
- through merger, consolidation or purchase of assets, another savings institution or a holding company thereof, or acquiring all or substantially all of the assets of such institution (or a holding company) without prior Federal Reserve or FDIC approval;
- with certain exceptions, more than 5.0% of the voting shares of a non-subsidiary savings association or a non-subsidiary holding company; or
- control of any depository institution not insured by the FDIC (except through a merger with and into the holding company's savings institution subsidiary that is approved by the FDIC).

In evaluating applications by holding companies to acquire savings associations, the Federal Reserve must consider the financial and managerial resources and future prospects of the company and institution involved, the effect of the acquisition on the risk to the insurance funds, the convenience and needs of the community and competitive factors.

A savings and loan holding company generally may not acquire as a separate subsidiary a savings association in a different state from where its current savings association is located, except:

- in the case of certain emergency acquisitions approved by the FDIC;
- if such holding company controls a savings association that operated a home or branch office in such additional state as of March 5, 1987; or
- if the laws of the state in which the savings association to be acquired is located specifically authorize a savings association chartered by that state to be acquired by a savings institution chartered by the state where the acquiring savings association or savings and loan holding company is located, or by a holding company that controls such a state-chartered association.

Acquisition of Control

Under the federal Change in Bank Control Act, a notice must be submitted to the Federal Reserve if any person (including a company), or group acting in concert, seeks to acquire "control" of a savings and loan holding company. An acquisition of control can occur upon the acquisition of 10.0% or more of the voting stock of a savings and loan holding company or as otherwise defined by the Federal Reserve. Under the Change in Bank Control Act, the Federal Reserve has 60 days from the filing of a complete notice to act (the 60-day period may be extended), taking into consideration certain factors, including the financial and managerial resources of the acquirer and the antitrust effects of the acquisition. Any company that so acquires control would then be subject to regulation as a savings and loan holding company. Control can also exist if an individual or company has, or exercises, directly or indirectly or by acting in concert with others, a controlling influence over the Bank. Washington law also imposes certain limitations on the ability of persons and entities to acquire control of banking institutions and their parent companies.

Dividend Policy

Under Washington law, the Company is generally permitted to make a distribution, including payments of dividends, only if, after giving effect to the distribution, in the judgment of the board of directors, (1) the Company would be able to pay its debts as they become due in the ordinary course of business and (2) the Company's total assets would at least equal the sum of its total liabilities plus the amount that would be needed if the Company were to be dissolved at the time of the distribution to satisfy the preferential rights upon dissolution of shareholders whose preferential rights are superior to those receiving the distribution.

The Company had previously elected to defer the payment of interest on its outstanding Trust Preferred Securities ("TruPS"), and therefore had been prohibited from declaring or paying dividends or distributions on, and from making liquidation payments with respect to, its common stock until it is current on all interest payments due. On March 12, 2013, the Federal Reserve approved the Company's request to make its interest payments current on its outstanding TruPS and the Company subsequently paid all deferred and current interest owed on its outstanding TruPS on March 15, 2013.

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The Company's ability to pay dividends to shareholders is significantly dependent on the Bank's ability to pay dividends to the Company. New capital rules will impose additional requirements on the ability of the Company and the Bank to pay dividends. See "Regulation of Home Street Bank - Capital and Prompt Corrective Action Requirements - New Capital Rules."

Compensation Policies

Compensation policies and practices at HomeStreet, Inc. and HomeStreet Bank are subject to regulation by their respective banking regulators and the SEC.

Guidance on Sound Incentive Compensation Policies. Effective on June 25, 2010, the Office of the Comptroller of the Currency, the Federal Reserve, the FDIC and the OTS adopted Sound Incentive Compensation Policies Final Guidance (the "Final Guidance") designed to help ensure that incentive compensation policies at banking organizations do not encourage imprudent risk-taking and are consistent with the safety and soundness of the organization.

The Final Guidance applies to senior executives and others who are responsible for oversight of HomeStreet's company-wide activities and material business lines, as well as other employees who, either individually or as a part of a group, have the ability to expose the Bank to material amounts of risk.

Dodd-Frank Act. In addition to the Final Guidance, the Dodd-Frank Act contains a number of provisions relating to compensation applying to public companies such as the Company. The Dodd-Frank Act added a new Section 14A(a) to the Exchange Act that requires companies to include a separate non-binding resolution subject to shareholder vote in their proxy materials approving the executive compensation disclosed in the materials. In addition, a new Section 14A(b) to the Exchange Act requires any proxy or consent solicitation materials for a meeting seeking shareholder approval of an acquisition, merger, consolidation or disposition of all or substantially all of the company's assets to include a separate non-binding shareholder resolution approving certain "golden parachute" payments made in connection with the transaction. A new Section 10D to the Exchange Act requires the SEC to direct the national securities exchanges to require companies to implement a policy to "claw back" certain executive payments that were made based on improper financial statements.

In addition, Section 956 of the Dodd-Frank Act requires certain regulators (including the FDIC, SEC and Federal Reserve) to adopt requirements or guidelines prohibiting excessive compensation or compensation that could lead to material loss as well as rules relating to disclosure of compensation. On April 14, 2011, these regulators published a joint proposed rulemaking to implement Section 956 of Dodd-Frank for depository institutions, their holding companies and various other financial institutions with \$1 billion or more in assets. Section 956 prohibits incentive-based compensation arrangements which encourage inappropriate risk taking by covered financial institutions and are deemed to be excessive, or that may lead to material losses. The proposed rule would (1) prohibit incentive-based compensation arrangements for covered persons that would encourage inappropriate risks by providing excess compensation, (2) prohibit incentive-based compensation arrangements for covered persons that would expose the institution to inappropriate risks by providing compensation that could lead to a material financial loss, (3) require policies and procedures for incentive-based compensation arrangements that are commensurate with the size and complexity of the institutions and (4) require annual reports on incentive compensation structures to the institution's appropriate federal regulator.

FDIC Regulations. We are further restricted in our ability to make certain "golden parachute" and "indemnification" payments under Part 359 of the FDIC regulations, and the FDIC also regulates payments to executives under Part 364 of its regulations relating to excessive executive compensation.

Emerging Growth Company

We are an "Emerging Growth Company," as defined in the Jumpstart Our Business Startups Act (the "JOBS Act"), and are eligible to take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not Emerging Growth Companies. These include, but are not limited to, not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act of 2002, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, and exemptions from certain requirements under the Dodd-Frank Act, including the requirement to hold a non-binding advisory vote on executive compensation and the requirement to obtain stockholder approval of any golden parachute payments not previously approved. We currently intend to take advantage of some or all of these reporting exemptions until we are

no longer qualify as an Emerging Growth Company.

We will remain an Emerging Growth Company for up to five years from the end of the year of our initial public offering, or until (1) we have total annual gross revenues of at least \$1 billion, (2) we qualify as a large accelerated filer, or (3) we issue more than \$1 billion in nonconvertible debt in a three-year period.

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Regulation and Supervision of HomeStreet Bank

General

As a savings bank chartered under the laws of the State of Washington, HomeStreet Bank is subject to applicable provisions of Washington law and regulations of the WDFI. As a state-chartered savings bank that is not a member of the Federal Reserve System, the Bank's primary federal regulator is the FDIC. It is subject to regulation and examination by the WDFI and the FDIC, as well as enforcement actions initiated by the WDFI and the FDIC, and its deposits are insured by the FDIC.

Washington Banking Regulation

As a Washington savings bank, the Bank's operations and activities are substantially regulated by Washington law and regulations, which govern, among other things, the Bank's ability to take deposits and pay interest, to make loans on or invest in residential and other real estate, to make consumer and commercial loans, to invest in securities, to offer various banking services to its customers and to establish branch offices. Under state law, savings banks in Washington also generally have, subject to certain limitations or approvals, all of the powers that Washington chartered commercial banks have under Washington law and that federal savings banks and national banks have under federal laws and regulations.

Washington law also governs numerous corporate activities relating to the Bank, including the Bank's ability to pay dividends, to engage in merger activities and to amend its articles of incorporation, as well as limitations on change of control of the Bank. Under Washington law, the board of directors of the Bank generally may not declare a cash dividend on its capital stock if payment of such dividend would cause its net worth to be reduced below the net worth requirements, if any, imposed by the WDFI and dividends may not be paid in an amount greater than its retained earnings without the approval of the WDFI. These restrictions are in addition to restrictions imposed by federal law. Mergers involving the Bank and sales or acquisitions of its branches are generally subject to the approval of the WDFI. No person or entity may acquire control of the Bank until 30 days after filing an application with the WDFI, who has the authority to disapprove the application. Washington law defines "control" of an entity to mean directly or indirectly, alone or in concert with others, to own, control or hold the power to vote 25.0% or more of the outstanding stock or voting power of the entity. Any amendment to the Bank's articles of incorporation requires the approval of the WDFI.

The Bank is subject to periodic examination by and reporting requirements of the WDFI, as well as enforcement actions initiated by the WDFI. The WDFI's enforcement powers include the issuance of orders compelling or restricting conduct by the Bank and the authority to bring actions to remove the Bank's directors, officers and employees. The WDFI has authority to place the Bank under supervisory direction or to take possession of the Bank and to appoint the FDIC as receiver.

Dodd-Frank Act

Numerous provisions of the Dodd-Frank Act affect the Bank and its business and operations. For example, the Dodd-Frank Act broadened the base for FDIC insurance assessments. Assessments are now based on the average consolidated total assets less tangible equity capital of a financial institution. The Dodd-Frank Act also permanently increased the maximum amount of deposit insurance for banks, savings institutions and credit unions to \$250,000 per depositor.

In addition, under the Dodd-Frank Act:

¶The requirements relating to the Bank's capital have been modified.

In order to prevent abusive residential lending practices, new responsibilities are imposed on parties engaged in residential mortgage origination, brokerage and lending, and securitizers of mortgages and other asset-backed securities ("ABS") are required, subject to certain exemptions, to retain not less than five percent of the credit risk of the mortgages or other assets backing the securities.

¶Restrictions on affiliate and insider transactions are expanded.

¶Restrictions on management compensation and related governance have been enhanced.

¶A federal Consumer Financial Protection Bureau ("CFPB") is created with a broad authority to regulate consumer financial products and services.

¶Restrictions are imposed on the amount of interchange fees that certain debit card issuers may charge.

Restrictions on banking entities from engaging in proprietary trading or owning interests in or sponsoring hedge funds or private equity funds (the Volcker Rule), and requiring sponsors of ABS to retain an ownership stake in the ABS.

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In part because not all of the regulations implementing the Dodd-Frank Act have yet been finalized or become effective, it is difficult to predict at this time what specific impact the Dodd-Frank Act and the final rules and regulations will have on community banks. However, it is expected that at a minimum they will increase our operating and compliance costs and could increase our interest expense. Any additional changes in our regulation and oversight, whether in the form of new laws, rules and regulations, could make compliance more difficult or expensive or otherwise materially adversely affect our business, financial condition or prospects. The provisions of the Dodd-Frank Act and the subsequent exercise by regulators of their revised and expanded powers thereunder could materially and negatively impact the profitability of our business, the value of assets we hold or the collateral available for our loans, require changes to business practices or force us to discontinue businesses and expose us to additional costs, taxes, liabilities, enforcement actions and reputational risk.

Insurance of Deposit Accounts and Regulation by the FDIC

The FDIC is the Bank's principal federal bank regulator. As such, the FDIC is authorized to conduct examinations of and to require reporting by the Bank. The FDIC may prohibit the Bank from engaging in any activity determined by law, regulation or order to pose a serious risk to the institution, and may take a variety of enforcement actions in the event the Bank violates a law, regulation or order, engages in an unsafe or unsound practice or under certain other circumstances. The FDIC also has the authority to appoint itself as receiver of the Bank or to terminate the Bank's deposit insurance if it were to determine that the Bank has engaged in unsafe or unsound practices or is in an unsafe or unsound condition.

The Bank is a member of the Deposit Insurance Fund ("DIF") administered by the FDIC, which insures customer deposit accounts. Under the Dodd-Frank Act, the amount of federal deposit insurance coverage was permanently increased from \$100,000 to \$250,000, per depositor, for each account ownership category at each depository institution. This change made permanent the coverage increases that had been in effect since October 2008. The unlimited FDIC insurance for non-interest bearing transaction accounts that had been available since 2008 was discontinued as of December 31, 2012.

In order to maintain the DIF, member institutions, such as the Bank, are assessed insurance premiums. In light of the stresses that have occurred on the DIF in recent years and increases in insurance coverage, assessments have risen sharply.

The Dodd-Frank Act requires the FDIC to make numerous changes to the DIF and the manner in which assessments are calculated. The minimum ratio of assets in the DIF to the total of estimated insured deposits was increased from 1.15% to 1.35%, and the FDIC is given until September 30, 2020 to meet the reserve ratio. In December 2010, the FDIC adopted a final rule setting the reserve ratio of the DIF at 2.0%. As required by the Dodd-Frank Act, assessments are now based on an insured institution's average consolidated assets less tangible equity capital. For the purpose of determining an institution's assessment rate, each institution is provided an assessment risk assignment, which is generally based on the risk that the institution presents to the DIF. Insured institutions with assets of less than \$10 billion are placed in one of four risk categories. These risk categories are generally determined based on an institution's capital levels and its supervisory evaluation. These institutions generally have an assessment rate that can range from 2.5 to 45 basis points. However, the FDIC does have flexibility to adopt assessment rates without additional rule-making provided that the total base assessment rate increase or decrease does not exceed 2 basis points. In the future, if the reserve ratio reaches certain levels, these assessment rates will generally be lowered. As of December 31, 2013, the Bank's assessment rate was 6 basis points on average assets less average tangible equity capital.

In addition, all FDIC-insured institutions are required to pay a pro rata portion of the interest due on obligations issued by the Financing Corporation to fund the closing and disposal of failed thrift institutions by the Resolution Trust Corporation. The Financing Corporation rate is adjusted quarterly to reflect changes in assessment bases of the DIF. These assessments will continue until the Financing Corporation bonds mature in 2019. The annual rate for the first quarter of 2014 is 0.62 basis points.

Qualified Thrift Lender Test

A savings association can comply with the Qualified Thrift Lender test either by meeting the Qualified Thrift Lender test set forth in the HOLA and its implementing regulations or by qualifying as a domestic building and loan

association as defined in Section 7701(a)(19) of the Internal Revenue Code of 1986 and implementing regulations. To qualify under the HOLA test, the Bank is required to maintain at least 65% of its “portfolio assets” in “qualified thrift investments” in at least nine months of the most recent 12-month period. “Portfolio assets” are total assets less (1) specified liquid assets up to 20% of total assets, (2) intangibles, including goodwill, and (3) the value of the property used to conduct business. “Qualified thrift investments” primarily consists of residential mortgages and related investments, including certain MBS, home equity loans, credit card loans, student loans and small business loans.

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To qualify under the Internal Revenue Code test, a savings association must meet both a “business operations” test and a “60% of assets” test. The business operations test requires the business of a savings association to consist primarily of acquiring the savings of the public and investing in loans. The 60% of assets test requires that at least 60% of a savings association's assets must consist of residential real property loans and certain other traditional thrift assets. While the Bank is eligible to qualify as a qualified thrift lender under the HOLA test, it is not clear due to statutory ambiguities that the Bank is eligible to qualify under the Internal Revenue Code test. As noted above, it is necessary for the Bank to qualify as a qualified thrift lender only under one of these two tests.

As of December 31, 2013, the Bank held approximately 91% of its portfolio assets in qualified thrift investments and had more than \$2.16 billion of its portfolio assets in qualified thrift investments for each of the 12 months ending December 31, 2013. Therefore, the Bank qualified under the HOLA test. A savings association subsidiary of a savings and loan holding company that does not meet the Qualified Thrift Lender test must comply with the following restrictions on its operations:

- the association may not engage in any new activity or make any new investment, directly or indirectly, unless the activity or investment is also permissible for a national bank;

- the branching powers of the association are restricted to those of a national bank located in the association's home state; and

- payment of dividends by the association is subject to the rules regarding payment of dividends by a national bank and must be necessary for its parent company to meet its obligations and must receive regulatory approval.

Further, an institution which fails to comply with the qualified thrift lender test is also subject to possible agency enforcement action as a violation of law under the HOLA. In addition, if the institution does not requalify under HOLA test within three years after failing the test, the institution would be prohibited from engaging in any activity not permissible for a national bank and would have to repay any outstanding advances from the FHLB as promptly as possible. Within one year of the date that a savings association ceases to meet the Qualified Thrift Lender test, any company that controls the association must register as and be deemed to be a bank holding company subject to all of the provisions of the Bank Holding Company Act of 1956 and other statutes applicable to bank holding companies. There are certain limited exceptions to these requirements.

Capital and Prompt Corrective Action Requirements

Capital Requirements

Federally insured depository institutions, such as the Bank, are required to maintain a minimum level of regulatory capital. “Total capital” generally means the sum of Tier 1 capital and Tier 2 capital. The FDIC regulations recognize two types, or tiers, of capital: “core capital,” or Tier 1 capital, and “supplementary capital,” or Tier 2 capital. Tier 1 capital generally includes common shareholders' equity and noncumulative perpetual preferred stock, less most intangible assets. Tier 2 capital, which is recognized up to 100% of Tier 1 capital for risk-based capital purposes (after any deductions for disallowed intangibles and disallowed deferred tax assets), includes such items as qualifying general loan loss reserves (up to 1.25% of risk-weighted assets), cumulative perpetual preferred stock, long-term preferred stock (original maturity of at least 20 years), certain perpetual preferred stock, hybrid capital instruments including mandatory convertible debt, term subordinated debt, intermediate-term preferred stock (original average maturity of at least five years) and net unrealized holding gains on equity securities (subject to certain limitations); provided, however, the amount of term subordinated debt and intermediate term preferred stock that may be included in Tier 2 capital for risk-based capital purposes is limited to 50.0% of Tier 1 capital.

The FDIC currently measures a bank's capital using the (1) total risk-based capital ratio, (2) Tier 1 risk-based capital ratio and (3) Tier 1 capital leverage ratio. The risk-based measures are based on ratios of qualifying capital to risk-weighted assets. To determine risk-weighted assets, assets are placed in one of five categories and given a percentage weight based on the relative risk of that category. In addition, certain off-balance-sheet items are converted to balance-sheet credit equivalent amounts, and each amount is then assigned to one of the five categories. In evaluating the adequacy of a bank's capital, the FDIC may also consider other factors that may affect the bank's financial condition, such as interest rate risk exposure, liquidity, funding and market risks, the quality and level of earnings, concentration of credit risk, risks arising from nontraditional activities, loan and investment quality, the effectiveness of loan and investment policies, and management's ability to monitor and control financial operating

risks. Under the current capital rules, banks are required to have a total risk-based capital ratio of at least 8.00%, a Tier 1 risk-based capital ratio of at least 4.00% and Tier 1 capital leverage ratio generally of at least 4.00%

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Prompt Corrective Action Regulations

Section 38 of the Federal Deposit Insurance Act establishes a framework of supervisory actions for insured depository institutions that are not adequately capitalized, also known as “prompt corrective action” regulations. All of the federal banking agencies have promulgated substantially similar regulations to implement a system of prompt corrective action. The framework for the type of supervisory action is based on a determination of a bank's capital category as follows:

in order to be considered “well capitalized,” a bank must have a total risk-based capital ratio of 10.0% or more, a Tier 1 risk-based capital ratio of 6.0% or more, a leverage capital ratio of 5.0% or more, and must not be subject to any written agreement, order or capital directive to meet and maintain a specific capital level for any capital measure; in order to be considered “adequately capitalized,” a bank must have a total risk-based capital ratio of 8.0% or more, a Tier 1 risk-based capital ratio of 4.0% or more, and a leverage capital ratio of 4.0% or more (or, a leverage ratio of at least 3.0% if the institution has a composite CAMELS (Capital adequacy, asset quality, management quality, earnings, liquidity and sensitivity to market risk) rating of 1 and is not experiencing or anticipating any significant growth);

a bank is “undercapitalized” if it has a total risk-based capital ratio that is less than 8.0%, a Tier 1 risk-based capital ratio that is less than 4.0%, or a leverage capital ratio that is less than 4.0% (or a leverage ratio of at least 3.0% under certain circumstances);

a bank is “significantly undercapitalized” if it has a total risk-based capital ratio that is less than 6.0%, a Tier 1 risk-based capital ratio that is less than 3.0% or a leverage capital ratio that is less than 3.0%; and

a bank is “critically undercapitalized” if it has a ratio of tangible equity to total assets that is equal to or less than 2.0%. Additionally, a bank, based upon its capital levels, that is classified as “well capitalized,” “adequately capitalized” or “undercapitalized” may be treated as though it were in the next lower capital category if the appropriate federal banking agency, after notice and opportunity for a hearing, determines that an unsafe or unsound condition, or an unsafe or unsound practice, warrants such treatment.

At each successive lower capital category, an insured bank is subject to increasingly severe supervisory actions. These actions include, but are not limited to, restrictions on asset growth, interest rates paid on deposits, branching, allowable transactions with affiliates, ability to pay bonuses and raises to senior executives and pursuing new lines of business. Additionally, all “undercapitalized” banks are required to implement capital restoration plans to restore capital to at least the “adequately capitalized” level, and the FDIC is generally required to close “critically undercapitalized” banks within a 90-day period.

New Capital Regulations

In July 2013, federal banking regulators (including the FDIC and the FRB) adopted new capital rules (the “Rules”). The Rules apply to both depository institutions (such as the Bank) and their holding companies (such as the Company). The Rules reflect, in part, certain standards initially adopted by the Basel Committee on Banking Supervision in December 2010 (which standards are commonly referred to as “Basel III”) as well as requirements contemplated by the Dodd-Frank Act.

Under the Rules, both the Company and the Bank will be required to meet certain minimum capital requirements. The Rules implement a new capital ratio of common equity Tier 1 capital to risk-based assets. Common equity Tier 1 capital generally consists of retained earnings and common stock instruments (subject to certain adjustments), as well as accumulated other comprehensive income (“AOCI”) except to the extent that the Company and the Bank exercise a one-time irrevocable option to exclude certain components of AOCI. Both the Company and the Bank expect to elect this one-time option to exclude certain components of AOCI. Both the Company and the Bank are required to have a common equity Tier 1 capital ratio of 4.5%. In addition, both the Company and the Bank are required to have a Tier 1 leverage ratio of 4.0%, a Tier 1 risk-based ratio of 6.0% and a total risk-based ratio of 8.0%. In addition to the preceding requirements, both the Company and the Bank are required to establish a “conservation buffer,” consisting of common equity Tier 1 capital, which is at least 2.5% above each of the preceding common equity Tier 1 capital ratio, the Tier 1 risk-based ratio and the total risk-based ratio. An institution that does not meet the conservation buffer will be subject to restrictions on certain activities including payment of dividends, stock repurchases and discretionary bonuses to executive officers. The prompt corrective action rules, which apply to the Bank but not the Company, are

modified to include a common equity Tier 1 risk-based ratio and to increase certain other capital requirements for the various thresholds. For example, the requirements for the Bank to be considered well-capitalized under the Rules are a 5.0% Tier 1 leverage ratio, a 6.5% common equity Tier 1 risk-based ratio, an 8.0% Tier 1 risk-based capital ratio and a 10.0% total risk-based capital ratio. To be adequately capitalized, those ratios are 4.0%, 4.5%, 6.0% and 8.0%, respectively.

The Rules modify the manner in which certain capital elements are determined, including but not limited to, requiring certain deductions related to mortgage servicing rights and deferred tax assets. When the federal banking regulators initially proposed

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new capital rules in 2012, the rules would have phased out trust preferred securities as a component of Tier 1 capital. As finally adopted, however, the Rules permit holding companies with less than \$815 billion in total assets as of December 31, 2009 (which includes the Company) to continue to include trust preferred securities issued prior to May 19, 2010 in Tier 1 capital, generally up to 25% of other Tier 1 capital.

The Rules make changes in the methods of calculating certain risk-based assets, which in turn affects the calculation of risk-based ratios. Higher or more sensitive risk weights are assigned to various categories of assets, among which are commercial real estate, credit facilities that finance the acquisition, development or construction of real property, certain exposures or credits that are 90 days past due or are nonaccrual, foreign exposures, certain corporate exposures, securitization exposures, equity exposures and in certain cases mortgage servicing rights and deferred tax assets.

The Company and the Bank are generally required to begin compliance with the Rules on January 1, 2015. The conservation buffer will be phased in beginning in 2016 and will take full effect on January 1, 2019. Certain calculations under the Rules will also have phase-in periods. We believe that the current capital levels of the Company and the Bank are in compliance with the standards under the Rules including the conservation buffer.

Limitations on Transactions with Affiliates

Transactions between the Bank and any affiliate are governed by Sections 23A and 23B of the Federal Reserve Act. An affiliate of the Bank is any company or entity which controls, is controlled by or is under common control with the Bank but which is not a subsidiary of the Bank. The Company and its non-bank subsidiaries are affiliates of the Bank. Generally, Section 23A limits the extent to which the Bank or its subsidiaries may engage in “covered transactions” with any one affiliate to an amount equal to 10.0% of the Bank's capital stock and surplus, and imposes an aggregate limit on all such transactions with all affiliates in an amount equal to 20.0% of such capital stock and surplus. Section 23B applies to “covered transactions” as well as certain other transactions and requires that all transactions be on terms substantially the same, or at least as favorable to the Bank, as those provided to a non-affiliate. The term “covered transaction” includes the making of loans to an affiliate, the purchase of or investment in the securities issued by an affiliate, the purchase of assets from an affiliate, the acceptance of securities issued by an affiliate as collateral security for a loan or extension of credit to any person or company, the issuance of a guarantee, acceptance or letter of credit on behalf of an affiliate, or certain transactions with an affiliate that involves the borrowing or lending of securities and certain derivative transactions with an affiliate.

In addition, Sections 22(g) and (h) of the Federal Reserve Act place restrictions on loans, derivatives, repurchase agreements and securities lending to executive officers, directors and principal shareholders of the Bank and its affiliates.

Standards for Safety and Soundness

The federal banking regulatory agencies have prescribed, by regulation, a set of guidelines for all insured depository institutions prescribing safety and soundness standards. These guidelines establish general standards for internal controls, information systems, internal audit systems, loan documentation, credit underwriting, interest rate risk exposure, asset growth, asset quality, earnings standards, compensation, fees and benefits. In general, the guidelines require appropriate systems and practices to identify and manage the risks and exposures specified in the guidelines before capital becomes impaired. The guidelines prohibit excessive compensation as an unsafe and unsound practice and describe compensation as excessive when the amounts paid are unreasonable or disproportionate to the services performed by an executive officer, employee, director, or principal shareholder.

Each insured depository institution must implement a comprehensive written information security program that includes administrative, technical and physical safeguards appropriate to the institution's size and complexity and the nature and scope of its activities. The information security program also must be designed to ensure the security and confidentiality of customer information, protect against any unanticipated threats or hazards to the security or integrity of such information, protect against unauthorized access to or use of such information that could result in substantial harm or inconvenience to any customer and ensure the proper disposal of customer and consumer information. Each insured depository institution must also develop and implement a risk-based response program to address incidents of unauthorized access to customer information in customer information systems. If the FDIC determines that the Bank fails to meet any standard prescribed by the guidelines, it may require the Bank to submit an acceptable plan to

achieve compliance with the standard. The Bank maintains a program to meet the information security requirements and believes it is currently in compliance with this regulation.

Real Estate Lending Standards

FDIC regulations require the Bank to adopt and maintain written policies that establish appropriate limits and standards for real estate loans. These standards, which must be consistent with safe and sound banking practices, must establish loan portfolio

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diversification standards, prudent underwriting standards (including loan-to-value ratio limits) that are clear and measurable, loan administration procedures and documentation, approval and reporting requirements. The Bank is obligated to monitor conditions in its real estate markets to ensure that its standards continue to be appropriate for current market conditions. The Bank's board of directors is required to review and approve the Bank's standards at least annually.

The FDIC has published guidelines for compliance with these regulations, including supervisory limitations on loan-to-value ratios for different categories of real estate loans. Under the guidelines, the aggregate amount of all loans in excess of the supervisory loan-to-value ratios should not exceed 100.0% of total capital, and the total of all loans for commercial, agricultural, multifamily or other non-one-to-four family residential properties in excess of such ratios should not exceed 30.0% of total capital. Loans in excess of the supervisory loan-to-value ratio limitations must be identified in the Bank's records and reported at least quarterly to the Bank's board of directors.

The FDIC and the federal banking agencies have also issued guidance on sound risk management practices for concentrations in commercial real estate lending. The particular focus is on exposure to commercial real estate loans that are dependent on the cash flow from the real estate held as collateral and that are likely to be sensitive to conditions in the commercial real estate market (as opposed to real estate collateral held as a secondary source of repayment or as an abundance of caution). The purpose of the guidance is not to limit a bank's commercial real estate lending but to guide banks in developing risk management practices and capital levels commensurate with the level and nature of real estate concentrations.

Risk Retention

The Dodd-Frank Act requires that, subject to certain exemptions, securitizers of mortgage and other asset-backed securities retain not less than five percent of the credit risk of the mortgages or other assets. In April 2011, the federal banking regulators, together with the SEC, the Federal Housing Finance Agency and the Department of Housing and Urban Development, published proposed regulations implementing this requirement. Generally, the proposed regulations provide various ways in which the retention of risk requirement can be satisfied and also describe exemptions from the retention requirements for various types of assets, including mortgages. Final regulations have not been adopted.

Volcker Rule

In December 2013, the FDIC, the FRB and various other federal agencies issued final rules to implement certain provisions of the Dodd-Frank Act commonly known as the "Volcker Rule." Subject to certain exceptions, the final rules generally prohibit banks and affiliated companies from engaging in short-term proprietary trading of certain securities, derivatives, commodity futures and options on those instruments, for their own account. The final rules also impose restrictions on banks and their affiliates from acquiring or retaining an ownership interest in, sponsoring or having certain other relationships with hedge funds or private equity funds. Compliance with the rule will be required by July 21, 2015.

Activities and Investments of Insured State-Chartered Financial Institutions

Federal law generally prohibits FDIC-insured state banks from engaging as a principal in activities, and from making equity investments, other than those that are permissible for national banks. An insured state bank is not prohibited from, among other things, (1) acquiring or retaining a majority interest in certain subsidiaries, (2) investing as a limited partner in a partnership the sole purpose of which is direct or indirect investment in the acquisition, rehabilitation or new construction of a qualified housing project, provided that such limited partnership investments may not exceed 2.0% of the bank's total assets, (3) acquiring up to 10.0% of the voting stock of a company that solely provides or reinsures directors', trustees' and officers' liability insurance coverage or bankers' blanket bond group insurance coverage for insured depository institutions and (4) acquiring or retaining the voting shares of a depository institution if certain requirements are met.

Washington State has enacted a law regarding financial institution parity. The law generally provides that Washington-chartered savings banks may exercise any of the powers of Washington-chartered commercial banks, national banks or federally-chartered savings banks, subject to the approval of the Director of the WDFI in certain situations.

Environmental Issues Associated With Real Estate Lending

The Comprehensive Environmental Response, Compensation and Liability Act, or the CERCLA, is a federal statute that generally imposes strict liability on all prior and present “owners and operators” of sites containing hazardous waste. However, Congress has acted to protect secured creditors by providing that the term “owner and operator” excludes a person whose ownership is limited to protecting its security interest in the site. Since the enactment of the CERCLA, this “secured creditor” exemption has been the subject of judicial interpretations which have left open the possibility that lenders could be liable for cleanup costs on contaminated property that they hold as collateral for a loan. To the extent that legal uncertainty exists in this

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area, all creditors, including the Bank, that have made loans secured by properties with potential hazardous waste contamination (such as petroleum contamination) could be subject to liability for cleanup costs, which costs often substantially exceed the value of the collateral property.

Reserve Requirements

The Bank is subject to Federal Reserve regulations pursuant to which depository institutions may be required to maintain non-interest-earning reserves against their deposit accounts and certain other liabilities. Currently, reserves must be maintained against transaction accounts (primarily negotiable order of withdrawal and regular checking accounts). The regulations generally require that reserves be maintained in the amount of 3.0% of the aggregate of transaction accounts over \$12.4 million up to \$79.5 million in 2013 and 10% of the accounts over \$79.5 million. Net transaction accounts up to \$12.4 million are exempt from reserve requirements. The regulations generally require that reserves be maintained in the amount of 3.0% of the aggregate of transaction accounts over \$13.3 million up to \$89.0 million in 2014 and 10% of the accounts over \$89.0 million. Net transaction accounts up to \$12.4 million are exempt from reserve requirements.

Federal Home Loan Bank System

The Federal Home Loan Bank system consists of twelve regional Federal Home Loan Banks. Among other benefits, each of these serves as a reserve or central bank for its members within its assigned region. Each of the Federal Home Loan Banks makes available loans or advances to its members in compliance with the policies and procedures established by its board of directors. The Bank is a member of the Federal Home Loan Bank of Seattle ("FHLB"). As a member, the Bank is required to own stock in the FHLB and currently owns \$35.3 million of stock in the FHLB. The Federal Housing Finance Agency (the "Finance Agency") is the primary regulator of the FHLB, and the Finance Agency classified the FHLB as undercapitalized in August 2009. In October 2010, the FHLB entered into a Stipulation and Consent to The Issuance of a Consent Order with the Finance Agency, which sets forth requirements for capital management, asset composition and other operating and risk management improvements. In September 2012, the Finance Agency reclassified the FHLB as adequately capitalized but the FHLB remained subject to the Consent Order. On November 22, 2013, the Finance Agency issued an amended Consent Order, which modifies and supersedes the October 2010 Consent Order. The amended Consent Order acknowledges the FHLB's fulfillment of many of the requirements set forth in the 2010 Consent Order and improvements in the 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.

Community Reinvestment Act of 1977

Banks are subject to the provisions of the CRA of 1977, which requires the appropriate federal bank regulatory agency to assess a bank's record in meeting the credit needs of the assessment areas serviced by the bank, including low and moderate income neighborhoods. The regulatory agency's assessment of the bank's record is made available to the public. Further, these assessments are considered by regulators when evaluating mergers, acquisitions and applications to open or relocate a branch or facility. The Bank currently has a rating of "Outstanding" under the CRA.

Dividends

Dividends from the Bank constitute an important source of funds for dividends that may be paid by the Company to shareholders. The amount of dividends payable by the Bank to the Company depends upon the Bank's earnings and capital position and is limited by federal and state laws. Under Washington law, the Bank may not declare or pay a cash dividend on its capital stock if this would cause its net worth to be reduced below the net worth requirements, if any, imposed by the WDFI. In addition, dividends on the Bank's capital stock may not be paid in an amount greater than its retained earnings without the approval of the WDFI.

The amount of dividends actually paid during any one period will be strongly affected by the Bank's policy of maintaining a strong capital position. Because the Bank is treated as a savings association subsidiary of a savings and loan holding company, it must give the Federal Reserve at least 30 days' advance notice of the proposed declaration of a dividend on its guaranty, permanent or other non-withdrawable stock. Federal law prohibits an insured depository institution from paying a cash dividend if this would cause the institution to be "undercapitalized," as defined in the prompt corrective action regulations. Moreover, the federal bank regulatory agencies have the general authority to

limit the dividends paid by insured banks if such payments are deemed to constitute an unsafe and unsound practice. New capital rules adopted by the FDIC will impose additional requirements on the Bank's ability to pay dividends. See "- Capital and Prompt Corrective Action Requirements - New Capital Rules."

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Liquidity

The Bank is required to maintain a sufficient amount of liquid assets to ensure its safe and sound operation. See “Management’s Discussion and Analysis - Liquidity Risk and Capital Resources.”

Compensation

The Bank is subject to regulation of its compensation practices. See “Regulation and Supervision - Regulation of the Company - Compensation Policies.”

Bank Secrecy Act and USA Patriot Act

The Company and the Bank are subject to the Bank Secrecy Act, as amended by the USA PATRIOT Act, which gives the federal government powers to address money laundering and terrorist threats through enhanced domestic security measures, expanded surveillance powers and mandatory transaction reporting obligations. By way of example, the Bank Secrecy Act imposes an affirmative obligation on the Bank to report currency transactions that exceed certain thresholds and to report other transactions determined to be suspicious.

Like all United States companies and individuals, the Company and the Bank are prohibited from transacting business with certain individuals and entities named on the Office of Foreign Asset Control’s list of Specially Designated Nationals and Blocked Persons. Failure to comply may result in fines and other penalties. The Office of Foreign Asset Control (“OFAC”) has issued guidance directed at financial institutions in which it asserted that it may, in its discretion, examine institutions determined to be high-risk or to be lacking in their efforts to comply with these prohibitions. The Bank maintains a program to meet the requirements of the Bank Secrecy Act, USA PATRIOT Act and OFAC and believes it is currently in compliance with these requirements.

Identity Theft

Section 315 of the Fair and Accurate Credit Transactions Act (“FACT Act”) requires each financial institution or creditor to develop and implement a written Identity Theft Prevention Program to detect, prevent and mitigate identity theft “red flags” in connection with the opening of certain accounts or certain existing accounts.

The Bank maintains a program to meet the requirements of Section 315 of the FACT Act and believes it is currently in compliance with these requirements.

Consumer Protection Laws and Regulations

The Bank and its affiliates are subject to a broad array of federal and state consumer protection laws and regulations that govern almost every aspect of its business relationships with consumers. While this list is not exhaustive, these include the Truth-in-Lending Act, the Truth in Savings Act, the Electronic Fund Transfer Act, the Expedited Funds Availability Act, the Equal Credit Opportunity Act, the Fair Housing Act, the Secure and Fair Enforcement in Mortgage Licensing Act, the Real Estate Settlement Procedures Act, the Home Mortgage Disclosure Act, the Fair Credit Reporting Act, the Fair Debt Collection Practices Act, the Service Members’ Civil Relief Act, the Right to Financial Privacy Act, the Home Ownership and Equity Protection Act, the Consumer Leasing Act, the Fair Credit Billing Act, the Homeowners Protection Act, the Check Clearing for the 21st Century Act, laws governing flood insurance, laws governing consumer protections in connection with the sale of insurance, federal and state laws prohibiting unfair and deceptive business practices, foreclosure laws and various regulations that implement some or all of the foregoing. These laws and regulations mandate certain disclosure requirements and regulate the manner in which financial institutions must deal with customers when taking deposits, making loans, collecting loans and providing other services. Failure to comply with these laws and regulations can subject the Bank to various penalties, including but not limited to, enforcement actions, injunctions, fines, civil liability, criminal penalties, punitive damages and the loss of certain contractual rights. The Bank has a compliance governance structure in place to help ensure its compliance with these requirements.

The Dodd-Frank Act established the CFPB as a new independent bureau that is responsible for regulating consumer financial products and services under federal consumer financial laws. The CFPB has broad rulemaking authority with respect to these laws and exclusive examination and primary enforcement authority with respect to banks with assets of \$10 billion or more.

The Dodd-Frank Act also contains a variety of provisions intended to reform consumer mortgage practices. The provisions include (1) a requirement that lenders make a determination that at the time a residential mortgage loan is consummated the consumer has a reasonable ability to repay the loan and related costs, (2) a ban on loan originator

compensation based on the

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interest rate or other terms of the loan (other than the amount of the principal), (3) a ban on prepayment penalties for certain types of loans, (4) bans on arbitration provisions in mortgage loans and (5) requirements for enhanced disclosures in connection with the making of a loan. The Dodd-Frank Act also imposes a variety of requirements on entities that service mortgage loans.

The Dodd-Frank Act contains provisions further regulating payment card transactions. The Dodd-Frank Act required the Federal Reserve to adopt regulations limiting any interchange fee for a debit transaction to an amount which is “reasonable and proportional” to the costs incurred by the issuer. The Federal Reserve has adopted final regulations limiting the amount of debit interchange fees that large bank issuers may charge or receive on their debit card transactions. There is an exemption from the rules for issuers with assets of less than \$10 billion and the Federal Reserve has stated that it will monitor and report to Congress on the effectiveness of the exemption. Nevertheless, it is unclear whether such smaller issuers (which include the Bank) will, as a practical matter, be able to avoid the impact of the regulations.

Sarbanes-Oxley Act of 2002

The Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley") implemented a broad range of corporate governance and accounting measures to increase corporate responsibility, to provide for enhanced penalties for accounting and auditing improprieties at publicly traded companies, and to protect investors by improving the accuracy and reliability of disclosures under federal securities laws. We are subject to Sarbanes-Oxley because we are required to file periodic reports with the SEC under the Securities Exchange Act of 1934. Among other things, Sarbanes-Oxley and/or its implementing regulations establishes membership requirements and additional responsibilities for our audit committee, imposes restrictions on the relationship between us and our outside auditors (including restrictions on the types of non-audit services our auditors may provide to us), imposes additional responsibilities for our external financial statements on our chief executive officer and chief accounting officer, expands the disclosure requirements for our corporate insiders, requires our management to evaluate our disclosure controls and procedures and our internal control over financial reporting, and requires our independent registered public accounting firm to issue a report on our internal control over financial reporting.

Future Legislation or Regulation

In light of recent conditions in the United States economy and the financial services industry, the Obama administration, Congress, the regulators and various states continue to focus attention on the financial services industry. Additional proposals that affect the industry have been and will likely continue to be introduced. We cannot predict whether any of these proposals will be enacted or adopted or, if they are, the effect they would have on our business, our operations or our financial condition.

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ITEM 1A RISK FACTORS

This Annual Report on Form 10-K contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including the risks faced by us described below and elsewhere in this report.

Fluctuations in interest rates could 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. Changes in interest rates may reduce our mortgage revenues, which would negatively impact our noninterest income and, to a lesser extent, our net interest income, and may impact 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. To the extent interest rates 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.

We are operating 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. Dramatic declines in the housing market in recent years, with falling home prices and increasing foreclosures and unemployment, resulted in significant write-downs of asset values by financial institutions. While conditions have improved, 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 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;

Challenges in accurately estimating the ability of our borrowers to repay their loans if our forecasts of economic conditions and other economic predictions are not accurate;

Further erosion in the fiscal condition of the U.S. Treasury that may lead to new taxes limiting the ability of the Company to pursue growth and return profits to shareholders; and

Uncertainty regarding future political developments and fiscal policy.

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

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

We originate and purchase, sell and thereafter service single family and multifamily mortgages under the Fannie Mae, and to a lesser extent the Freddie Mac, single family purchase programs and the Fannie Mae multifamily DUS program. Since the nationwide downturn in residential mortgage lending that began in 2007 and the placement of Fannie Mae and Freddie Mac into conservatorship, Congress and various executive branch agencies have offered a wide range of proposals aimed at restructuring these agencies. None of these proposals have yet been defined with any specificity, and so we cannot predict how any such initiative would impact our business. However, any restructuring of Fannie Mae and Freddie Mac that restricts their 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 \$162.5 million at December 31, 2013. Changes in Fannie Mae's and Freddie Mac's policies and operations 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.

Fannie Mae and Freddie Mac are under conservatorship with the Federal Housing Finance Agency. On February 11, 2011, the Obama administration presented Congress with a report titled "Reforming America's Housing Finance Market, A Report to Congress," outlining its proposals for reforming America's housing finance market with the goal of scaling back the role of the U.S. government in, and promoting the return of private capital to, the mortgage markets and ultimately winding down Fannie Mae and Freddie Mac. Without mentioning a specific time frame, the report calls for 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. We cannot be certain if or when Fannie Mae and Freddie Mac ultimately will be 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.

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 as well as our results of operations. 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. Further, 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.

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 Washington Department of Financial Institutions and the Federal Reserve, 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 also sometimes retroactively applied. Examination findings by the regulatory agencies may result in adverse consequences to the Company or the Bank. Further, 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.

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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 as they 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 are being phased in gradually. In addition, the statute in many instances calls for regulatory rulemaking to implement its provisions, not all of which have been completed or are in effect, so the precise contours of the law and its effects on us cannot yet be fully understood. The provisions of the Dodd-Frank Act and the subsequent exercise by regulators of their revised and expanded powers thereunder could materially and negatively impact the profitability of our business, the value of assets we hold or the collateral available for our loans, require changes to business practices or force us to discontinue businesses and expose us to additional costs, taxes, liabilities, enforcement actions and reputational risk. See “Regulation and Supervision” in Item 1 of this Form 10-K.

We will be subject to more stringent capital requirements.

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 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 the Company and the Bank beginning in January 2015. As part of these new rules, both the Company and the 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 the Company and the 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 the Bank, including higher ratio requirements for the Bank to be considered well-capitalized. The new rules also modify the manner for determining when certain capital elements are included in the ratio calculations. Under current capital standards, the effects of accumulated other comprehensive income items included in capital are excluded for the purposes of determining regulatory capital ratios. Under Basel III, the effects of certain accumulated other comprehensive items are not excluded; however, non-advanced approaches banking organizations, including the Company and the Bank, may make a one-time permanent election to continue to exclude these items. The Company and 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 the Company'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 the Company 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 of Home Street Bank - Capital and Prompt Corrective Action Requirements - New Capital Rules.”

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.

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Recent court cases in Oregon and Washington have challenged whether Mortgage Electronic Registration Systems, Inc. (“MERS”) meets the statutory definition of deed of trust beneficiary under applicable state laws. Based on decisions handed down by courts in Oregon, we and other servicers of MERS-related loans have elected to foreclose through judicial procedures in Oregon, resulting in increased foreclosure costs, longer foreclosure timelines and additional delays. If the Oregon case law is upheld on appeal, and/or if the Washington or other state courts where we do significant business issue a similar decision 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.

We cannot offer assurances as to which, if any, of these actions may be implemented or, if implemented, to what extent they would affect our business. Any such initiatives or court decisions 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 courts decisions generally have focused primarily, if not exclusively, on residential mortgage origination, 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. For example, 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. While the full impact of CFPB's activities on our business is still unknown, we anticipate that CFPB actions may increase our compliance costs and require changes in our business practices as a result of new regulations and requirements and could limit the products and services we are able to provide to customers. We are unable to predict whether U.S. federal, state or local authorities, or other pertinent bodies, will enact legislation, laws, rules, regulations, handbooks, guidelines or similar provisions that will affect our business or require changes in our practices in the future, and any such changes could adversely affect our cost of doing business and profitability. See “Regulation and Supervision - Regulation and Supervision” in Item 1 of this Form 10-K.

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 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.

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

HomeStreet, Inc. is a separate legal entity from the Bank, and although we do receive some dividends from HomeStreet Capital Corporation, the primary source of our funds from which we service our debt, pay dividends to our shareholders and otherwise satisfy our obligations is dividends from the Bank. The availability of dividends from the Bank is limited by various statutes and regulations, as well as by our policy of retaining a significant portion of our earnings to support the Bank's operations. New capital rules will impose more stringent capital requirements to maintain "well capitalized" status which may impact the Bank's ability to pay dividends to the Company. See "Regulation of Home Street Bank - Capital and Prompt Corrective Action

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Requirements - New Capital Rules.” If the Bank cannot pay dividends to us, we may be limited in our ability to service our debts, fund the Company's operations and pay dividends to the Company's shareholders. While the Company has made dividend distributions to its public shareholders in recent quarters, the Company has not adopted a dividend policy and the Company may not be able to continue paying dividends and may suspend the payment of dividends from time to time.

We cannot assure you that we will remain profitable.

We have sustained significant losses in the past and 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:

Increased costs from growth through acquisition as well as the acquisition of other entities could exceed the income growth anticipated from these opportunities, especially in the short term as these acquisitions are integrated into our business;

Changes in the interest rate environment 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 government-sponsored enterprises and their ability to insure or to buy our loans in the secondary market may have 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 the Company.

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 for the Company.

We have been pursuing an aggressive growth strategy within both our single family mortgage banking and Commercial Bank business segments through hiring of additional personnel, and the costs associated with that growth may not keep pace with the anticipated increase in our revenues.

Beginning in February of 2012, we have hired a substantial number of loan and support personnel in both our traditional markets and in additional Western states. In addition to increasing our exposure to a more volatile single family mortgage banking segment of our business, the aggressive growth strategy for both the single family Mortgage Banking segment and the Commercial and Consumer Banking segment of our business exposes us to potential additional risks, including:

Expenses related to hiring and training a large number of new employees;

Higher compensation costs relative to production in the initial months of new employment;

- Increased compliance costs;

Costs associated with opening new offices that may be needed to provide for the new employees;

New state laws and regulations to which we have not been previously subject;

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Diversion of management's attention from the daily operations of other aspects of the business;

- The potential of litigation related from prior employers related to the portability of their employees;
- The potential loss of other key employees.

We cannot give assurance that these costs and other risks will be fully offset or mitigated by potentially increased revenue generated by the expansion in this business line in the near future, or at all.

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Efforts to integrate acquisitions could consume significant resources and may not be successful.

In the fourth quarter of 2013 we completed our acquisitions of Fortune Bank, Yakima National Bank and the two retail branches of AmericanWest Bank. We may seek out other acquisitions in the near future as we look for ways to continue to grow our business and our market share. These acquisitions and any other future acquisition we may undertake involve numerous risks related to the integration of the acquired assets or entity into HomeStreet or HomeStreet Bank, including risks that arise after the transaction is completed. These risks include:

- Difficulties in integrating the operations, technologies, and personnel of the acquired companies;
- Difficulties in implementing internal controls over financial reporting;
- Diversion of management's attention from normal daily operations of the business;
- Inability to maintain the key business relationships and the reputations of acquired businesses;
- Entry into markets in which we have limited or no prior experience and in which competitors have stronger market positions;
- Potential responsibility for the liabilities of acquired businesses;
- Inability to maintain our internal standards, controls, procedures and policies at the acquired companies or businesses; and
- Potential loss of key employees of the acquired companies.

Difficulties in integrating any or all of these acquisitions may increase our costs and adversely impact our financial condition and results of operations. Further, even if we successfully address these factors, we may nonetheless experience customer losses, or we may fail to grow the acquired businesses as we intend.

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;
- elimination of 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, as a Washington corporation, we are subject to Washington law which imposes restrictions on 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.

Federal, state and local consumer lending laws may restrict our ability to originate or increase our risk of liability with respect to certain mortgage loans 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 practices.” These laws prohibit practices such as steering borrowers away from more affordable products, selling unnecessary insurance to borrowers, repeatedly refinancing loans, 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.

They 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.

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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 market values decline, 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.

In addition, as a result of our recent acquisitions of Fortune Bank, Yakima National Bank and two branches of AmericanWest Bank, we have added the loans previously held by the acquired companies or related to the acquired branches to our books. 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 clean-up 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

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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 our 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 the Company'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.

To date we have not experienced 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 the Company. 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

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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.

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 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 FHLB, we are required to purchase and hold a certain amount of FHLB stock. Our stock purchase requirement is based, in part, upon the outstanding principal balance of advances from the FHLB. Our 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 FHLB may require us to recognize an impairment charge with respect to such holdings. The FHLB is currently subject to a Consent Order issued by its primary regulator, the Federal Housing Finance Agency.

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

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

As a result of the Federal Reserve Board's concerns regarding continued slow economic growth, the Federal Reserve Board, in 2008 implemented its standing monetary policy known as “quantitative easing,” a program involving the purchase of mortgage backed securities and United States Treasury securities, the volume of which has been aligned with specific economic targets or measures intended to bolster the U.S. economy. As the Federal Reserve Board, through the Federal Open Market Committee (the “Committee”), monitors economic performance, the volume of the quantitative easing program has been incrementally

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reduced. The Committee has 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 will likely reduce the pace of asset purchases in further measured steps at future meetings. However, asset purchases 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, and for so long as the program continues, may continue to have, the effect of supporting higher revenues than might otherwise be available. Contrarily, a 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 has significant volatility.

A substantial portion of our consolidated net revenues (net interest income plus noninterest income) are derived from originating and selling residential mortgages. Residential mortgage lending in general has experienced substantial volatility in recent periods. Moreover, a significant increase in interest rates, such as we experienced in the second quarter of 2013, may 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.

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's, and we could incur a net valuation loss as a result of our hedging activities. Following the expansion of our single family mortgage operations in early 2012 through the addition of a significant number of single family mortgage origination personnel, the volume of our single family loans held for sale and MSR's 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's.

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

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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 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 when we sell mortgage loans, we may be liable to the purchaser for unpaid principal and interest on the loan.

When we sell 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 loan sale 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. 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.

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

In January 2014 new federal regulations promulgated by the Consumer Financial Protection Bureau ("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

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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.

ITEM 1B UNRESOLVED STAFF COMMENTS

None.

ITEM 2 PROPERTIES

We lease principal offices, which are located in office space in downtown Seattle at 601 Union Street, Suite 2000, Seattle, WA 98101. This office lease provides sufficient space to conduct the management of our business. In addition, we currently lease space for all 81 of our office locations. Our branches include separate lending and retail banking facilities, as well as combined facilities, primarily located in Washington, Oregon, Idaho, California and Hawaii.

ITEM 3 LEGAL PROCEEDINGS

Because the nature of our business involves the collection of numerous accounts, the validity of liens and compliance with various state and federal lending laws, we are subject to various legal proceedings in the ordinary course of our business related to foreclosures, bankruptcies, condemnation and quiet title actions and alleged statutory and regulatory violations. We are also subject to legal proceedings in the ordinary course of business related to employment matters. We do not expect that these proceedings, taken as a whole, will have a material adverse effect on our business, financial position or our results of operations. There are currently no matters that, in the opinion of management, would have a material adverse effect on our consolidated financial position, results of operation or liquidity, or for which there would be a reasonable possibility of such a loss based on information known at this time.

ITEM 4 MINE SAFETY DISCLOSURES

Not applicable.

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PART II

ITEM MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND
5 ISSUER PURCHASES OF EQUITY SECURITIES

Our 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).

	High	Low	Special Cash Dividends Declared
For the year ended December 31, 2013			
First quarter ended March 31	\$28.73	\$21.80	\$—
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
For the year ended December 31, 2012			
First quarter ended March 31	\$14.99	\$11.33	\$—
Second quarter ended June 30	17.77	13.30	—
Third quarter ended September 30	19.75	15.39	—
Fourth quarter ended December 31	26.97	18.55	—

As of March 10, 2014, there were 138 shareholders of record of our common stock.

Dividend Policy

The Company 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 the Company 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.

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, the Company's and the Bank's liquidity, financial condition and results of operations, strategic growth plans, tax considerations, statutory and regulatory limitations and general economic conditions. The Company's ability to pay dividends to shareholders is significantly dependent on the Bank's ability to pay dividends to the Company, which is limited to the extent necessary for the Bank to meet the regulatory requirements of a "well-capitalized" bank or other formal or informal guidance communicated by our principal regulators. New capital rules to be implemented on January 1, 2015 will impose more stringent requirements on the ability of the Bank to maintain "well-capitalized" status and to pay dividends to the Company. See "Regulation of Home Street Bank - Capital and Prompt Corrective Action Requirements - New Capital Rules."

For the foregoing reasons, there can be no assurance that we will pay any further special dividends in any future period.

Sales of Unregistered Securities

Not applicable.

Stock Repurchases in the Fourth Quarter

Not applicable.

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Equity Compensation Plan Information

The following table gives information about our common stock that may be issued upon the exercise of options, warrants and rights under all of our existing equity compensation plans as of December 31, 2013, including the HomeStreet, Inc. 2010 Equity Incentive Plan (the "2010 Plan"), the HomeStreet, Inc. 2011 Director Equity Compensation Plan (the "2011 Plan"), and the retention grants made in 2010 outside of the 2010 Plan but subject to the terms and conditions of that plan.

Plan Category	(a) Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	(b) Weighted Average Exercise Price of Outstanding Options, Warrants, and Rights	(c) Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))	
Plans approved by shareholders	604,616	(1) \$12.42	249,396	(2)(3)(4)
Plans not approved by shareholders ⁽⁵⁾	49,600	\$0.81	N/A	
Total	654,216	\$12.10	249,396	

(1) Consists of option grants awarded pursuant to the 2010 Plan.

(2) Consists of 94,294 shares remaining under the 2010 Plan and 155,102 shares remaining under the 2011 Plan.

The 2010 Plan was passed by shareholders in January 2010 but did not become effective until the completion of our initial public offering in February 2012. Following our initial public offering, the number of shares available for issuance under the 2010 Plan, giving effect to our 2-for-1 forward stock splits in March 2012 and November (3) 2012, was 965,854. This amount was established by our Board of Directors, which determined that it will not issue equity grants under the 2010 Plan in an amount that would cause the combined amount of awards granted pursuant to the 2010 Plan and the 2010 retention equity awards to exceed 1,412,712 shares of common stock or 10% of the number of shares outstanding immediately following the closing of our initial public offering.

During 2013, under the 2010 Plan, the Company awarded 31,654 restricted stock awards, of which none have vested, and 1,489 performance stock awards, all of which have vested. The Company also issued an aggregate of (4) 8,366 shares of unrestricted common stock to the Company's non-employee directors pursuant to the terms of the 2011 Plan. There are no outstanding options, warrants or rights under the 2011 Plan.

(5) Consists of retention equity awards granted in 2010 outside of the 2010 Plan but subject to its terms and conditions.

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Stock Performance Graph

This performance graph shall not be deemed "soliciting material" or to be "filed" with the SEC for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (Exchange Act), or otherwise subject to the liabilities under that Section, and shall not be deemed to be incorporated by reference into any filing of HomeStreet, Inc. under the Securities Act of 1933, as amended, or the Exchange Act.

The following graph shows a comparison from February 10, 2012 (the date our common stock commenced trading on the NASDAQ Stock Market) through December 31, 2013 of the cumulative total return for our common stock, the KBW Bank Index (BKX) and the Russell 2000 (RUT) Index. The graph assumes that \$100 was invested at the market close on February 10, 2012 in the common stock of HomeStreet, Inc., the KBW Bank Index and the Russell 2000 Index and data for the KBW Bank Index and the Russell 2000 Index assumes reinvestments of dividends. The stock price performance of the following graph is not necessarily indicative of future stock price performance.

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ITEM 6 SELECTED FINANCIAL DATA

The data set forth below should be read in conjunction with Item 7, “Management’s Discussion and Analysis of Consolidated Financial Condition and Results of Operations,” and the Consolidated Financial Statements and Notes thereto appearing at Item 8 of this report.

The following table sets forth selected historical consolidated financial and other data for us at and for each of the periods ended as described below. The selected historical consolidated financial data as of December 31, 2013 and 2012 and for each of the years ended December 31, 2013, 2012 and 2011 have been derived from, and should be read together with, our audited consolidated financial statements and related notes included elsewhere in this Form 10-K. The selected historical consolidated financial data as of December 31, 2011, 2010 and 2009 and for each of the years ended December 31, 2010 and 2009 have been derived from our audited consolidated financial statements for those years, which are not included in this Form 10-K. You should read the summary selected historical consolidated financial and other data presented below in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our financial statements and the notes thereto, which are included elsewhere in this Form 10-K. We have prepared our unaudited information on the same basis as our audited consolidated financial statements and have included, in our opinion, all adjustments that we consider necessary for a fair presentation of the financial information set forth in that information.

(dollars in thousands, except share data)	At or for the Year Ended December 31,				
	2013	2012	2011	2010	2009
Income statement data (for the period ended):					
Net interest income	\$74,444	\$60,743	\$48,494	\$39,276	\$31,502
Provision for credit losses	900	11,500	3,300	37,300	153,515
Noninterest income	190,745	238,020	97,205	90,474	59,230
Noninterest expense	229,495	183,591	126,494	126,000	94,448
Net income (loss) before taxes	34,794	103,672	15,905	(33,550)	(157,231)
Income tax expense (benefit)	10,985	21,546	(214)	697	(46,955)
Net income (loss)	\$23,809	\$82,126	\$16,119	\$(34,247)	\$(110,276)
Basic income (loss) per share ⁽¹⁾	\$1.65	\$6.17	\$2.98	\$(6.34)	\$(20.41)
Diluted income (loss) per share ⁽¹⁾	\$1.61	\$5.98	\$2.80	\$(6.34)	\$(20.41)
Common shares outstanding ⁽¹⁾	14,799,991	14,382,638	5,403,498	5,403,498	5,403,498
Weighted average number of shares outstanding:					
Basic	14,412,059	13,312,939	5,403,498	5,403,498	5,403,498
Diluted	14,798,168	13,739,398	5,748,342	5,403,498	5,403,498
Book value per share	\$17.97	\$18.34	\$15.99	\$10.88	\$17.01
Dividends per share	\$0.33	\$—	\$—	\$—	\$—
Financial position (at year end):					
Cash and cash equivalents	\$33,908	\$25,285	\$263,302	\$72,639	\$217,103
Investment securities	498,816	416,517	329,242	313,715	658,058
Loans held for sale ⁽²⁾	279,941	620,799	150,409	212,602	57,046
Loans held for investment, net	1,871,813	1,308,974	1,300,873	1,538,521	1,964,994
Mortgage servicing rights ⁽²⁾	162,463	95,493	77,281	87,232	78,372
Other real estate owned	12,911	23,941	38,572	170,455	107,782
Total assets	3,066,054	2,631,230	2,264,957	2,485,697	3,209,536
Deposits	2,210,821	1,976,835	2,009,755	2,129,742	2,332,333
Federal Home Loan Bank advances	446,590	259,090	57,919	165,869	677,840

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Total shareholders' equity	\$265,926	\$263,762	\$86,407	\$58,789	\$91,896
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	At or for the Year Ended December 31,					
(dollars in thousands, except share data)	2013	2012	2011	2010	2009	
Financial position (averages):						
Investment securities	\$515,000	\$410,819	\$306,813	\$457,930	\$372,320	
Loans held for investment	1,496,146	1,303,010	1,477,976	1,868,035	2,307,215	
Total interest earning assets	2,422,136	2,167,363	2,069,858	2,642,693	3,056,755	
Total interest-bearing deposits	1,590,492	1,644,859	1,814,464	2,071,237	2,012,971	
Federal Home Loan Bank advances	293,871	93,325	93,755	382,083	685,715	
Total interest-bearing liabilities	2,023,409	1,817,847	1,970,725	2,522,767	2,776,163	
Shareholders' equity	\$249,081	\$211,329	\$68,537	\$89,267	\$160,145	
Financial performance:						
Return on average shareholders' equity ⁽³⁾	9.56	% 38.86	% 23.52	% (38.00)	)% (68.86))%
Return on average total assets	0.88	% 3.42	% 0.70	% (1.19)	)% (3.47))%
Net interest margin ⁽⁴⁾	3.17	% ⁽⁵⁾ 2.89	% 2.36	% 1.50	% 1.04	%
Efficiency ratio ⁽⁶⁾	86.54	% 61.45	% 86.82	% 97.24	% 104.10	%
Credit quality:						
Allowance for credit losses	\$24,089	\$27,751	\$42,800	\$64,566	\$110,422	
Allowance for loan losses/total loans	1.26	% 2.06	% 3.18	% 4.00	% 5.28	%
Allowance for loan losses/nonaccrual loans	93.00	% 92.20	% 55.81	% 56.69	% 29.25	%
Total nonaccrual loans ⁽⁷⁾	\$25,707	\$29,892	\$76,484	\$113,210	\$374,218	
Nonaccrual loans/total loans	1.36	% 2.24	% 5.69	% 7.06	% 18.04	%
Other real estate owned	\$12,911	\$23,941	\$38,572	\$170,455	\$107,782	
Total nonperforming assets	\$38,618	\$53,833	\$115,056	\$283,665	\$482,000	
Nonperforming assets/total assets	1.26	% 2.05	% 5.08	% 11.41	% 15.02	%
Net charge-offs	\$4,562	\$26,549	\$25,066	\$83,156	\$101,680	
Regulatory capital ratios for the bank:						
Tier 1 leverage capital (to average assets)	9.96	% 11.78	% 6.04	% 4.52	% 4.53	%
Tier 1 risk-based capital (to risk-weighted assets)	14.28	% 18.05	% 9.88	% 6.88	% 7.19	%
Total risk-based capital (to risk-weighted assets)	15.46	% 19.31	% 11.15	% 8.16	% 8.50	%
SUPPLEMENTAL DATA:						
Loans serviced for others:						
Single family	\$11,795,621	\$8,870,688	\$6,885,285	\$6,343,158	\$5,820,946	
Multifamily	720,429	727,118	758,535	776,671	810,910	
Other	95,673	53,235	56,785	58,765	69,839	
Total loans serviced for others	\$12,611,723	\$9,651,041	\$7,700,605	\$7,178,594	\$6,701,695	
Loan origination activity:						
Single family	\$4,870,603	\$4,901,459	\$1,721,264	\$2,069,144	\$2,727,457	
Other	585,547	255,049	150,401	120,058	124,433	
Total loan origination activity	\$5,456,150	\$5,156,508	\$1,871,665	\$2,189,202	\$2,851,890	

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- (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 divided by average common shareholders' equity.
- (4) Net interest income divided by total average earning assets on a tax equivalent basis.
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
- (5) 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 3.23% for the year ended December 31, 2013.
- (6) The efficiency ratio is noninterest expense divided by total revenue (net interest income and noninterest income).
- (7) Generally, loans are placed on nonaccrual status when they are 90 or more days past due.

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ITEM 7 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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 this Form 10-K. The following discussion contains statements using the words "anticipate," "believe," "could," "estimate," "expect," "intend," "may," "plan," "potential," "should," "will" and "would" and similar expressions (or the negative of these terms) generally identify forward-looking statements. Such statements involve inherent risks and uncertainties, many of which are difficult to predict and are generally beyond the control of the Company and are subject to risks and uncertainties, including, but not limited to, those discussed below and elsewhere in this Form 10-K, particularly in Item 1A "Risk Factors" that could cause actual results to differ significantly from those projected. Although we believe that expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. We do not intend to update any of the forward-looking statements after the date of this Form 10-K 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 Form 10-K.

Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the Consolidated Financial Statements and Notes presented elsewhere in this annual report on Form 10-K.

Management's Overview of 2013 Financial Performance

We are a diversified financial services company founded in 1921 and headquartered in Seattle, Washington, serving customers primarily in the Pacific Northwest, California and Hawaii. HomeStreet, Inc. 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. The 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, and commercial business loans. HomeStreet Capital Corporation, a Washington corporation, originates, sells and services multifamily mortgage loans under the Fannie Mae Delegated Underwriting and Servicing Program ("DUS®) in conjunction with HomeStreet Bank. 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").

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.

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.

On November 1, 2013, the Company successfully completed the acquisitions of Fortune Bank and YNB Financial Services Corp., the parent of Yakima National Bank. Immediately following completion of the acquisitions, YNB was merged into HomeStreet, Inc. Additionally, Fortune Bank and Yakima National Bank were merged into HomeStreet Bank. On December 6, 2013, the Company completed the acquisition of two retail deposit branches from

AmericanWest Bank. Through these fourth quarter acquisitions, the Company acquired \$206.7 million of portfolio loans and \$261.1 million of deposits. The Company recorded \$4.5 million of acquisition-related expenses during the year ended December 31, 2013.

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.

⁽¹⁾ DUS® is a registered trademark of Fannie Mae.

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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

(in thousands, except per share data and ratios)	Year Ended December 31,		
	2013	2012	2011
Selected statement of operations data			
Total net revenue ⁽¹⁾	\$265,189	\$298,763	\$145,699
Total noninterest expense	229,495	183,591	126,494
Provision for credit losses	900	11,500	3,300
Income tax expense (benefit)	10,985	21,546	(214)
Net income	23,809	82,126	16,119
Financial performance			
Diluted income per share	\$1.61	\$5.98	\$2.80
Return on average shareholders' equity	9.56	% 38.86	% 23.52
Return on average total assets	0.88	% 3.42	% 0.70
Net interest margin	3.17	% ⁽²⁾ 2.89	% 2.36
Capital ratios (Bank only)			
Tier 1 leverage capital (to average assets)	9.96	% 11.78	% 6.04
Tier 1 risk-based capital (to risk-weighted assets)	14.28	% 18.05	% 9.88
Total risk-based capital (to risk-weighted assets)	15.46	% 19.31	% 11.15

(1) Total net revenue is net interest income and noninterest income.

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 (2) Trust Preferred Securities ("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 3.23% 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

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 of the Company's loan portfolio 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

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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 the Company'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.

Mortgage Banking Segment Results

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 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

The Bank remains 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 the Bank's capital ratios from December 31, 2012 was primarily attributable to the fourth quarter acquisitions of Fortune Bank, Yakima National Bank and two branches from AmericanWest Bank, which created \$13.6 million of intangible assets which are not included 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.

Recent Developments

On March 5, 2014, the Company announced its intent to sell two pools of residential loans, while retaining the right to service such loans. The first pool is comprised of fixed-rate residential mortgage loans with outstanding principal balances of approximately \$105 million. The second pool is comprised of adjustable rate residential mortgage loans with outstanding principal balances of approximately \$222 million. The mortgage loans subject to these sales are located in Washington, Oregon, Idaho and Hawaii. The \$105 million pool sale is expected to close in March 2014 and the \$222 million pool sale is expected to close in April 2014. These sales are subject to numerous contingencies, including the successful negotiation and execution of final agreements between the parties.

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 the Company's financial statements are appropriate. For a further description of our accounting policies, see Note 1—Summary of Significant Accounting Policies in the financial statements included in this Form 10-K.

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.

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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 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" discussions within Management's Discussion and Analysis of this Form 10-K.

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:

- ending 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.

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Additionally, our credit administration department continually monitors conditions that affect the carrying values of our collateral, including local and regional economic factors as well as asset-specific factors such as tax values, comparable sales and other factors that affect or suggest changes in the actual collateral values. They also monitor and adjust for changes in comparable sales or competing projects, changes in zoning or entitlement status, changes in occupancy rates for income properties and similar factors.

The provision for loan losses recorded through earnings is based on management's assessment of the amount necessary to maintain the allowance for loan losses at a level appropriate to cover probable incurred losses inherent within the loans held for investment portfolio. The amount of provision and the corresponding level of allowance for loan losses are based on our evaluation of the collectability of the loan portfolio based on historical loss experience and other significant qualitative factors.

The allowance for loan losses, as reported in our consolidated statements of financial condition, is adjusted by a provision for loan losses, which is recognized in earnings, and reduced by the charge-off of loan amounts, net of recoveries. For further information on the allowance for loan losses, see Note 6—Loans and Credit Quality in the notes to the financial statements of this Form 10-K.

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, the Company 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 the Company'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.

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.

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(in millions)	At December 31, 2013		2012		
	Total Balance	Level 3	Total Balance	Level 3	
Assets carried at fair value	\$925.8	\$ 159.1	\$ 1,135.0	\$ 109.9	
As a percentage of total assets	30	% 5	% 43	% 4	%
Liabilities carried at fair value	\$10.4	\$—	\$12.1	\$—	
As a percentage of total liabilities	NM	NM	1	% NM	

NM = not meaningful

As of December 31, 2013, our Level 3 recurring fair value measurements consisted of single family MSR's and interest rate lock commitments.

On a quarterly basis, our Asset/Liability Management Committee ("ALCO") and the Finance Committee of the 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 the Company'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 the Company 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, the Company'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 the Company's Board of Directors and Company's Loan Committee (the "Loan Committee"), established by the Credit Committee of the Company's Board of Directors and comprised of certain of the Company's management. Appraisals are prepared by independent third-party appraisers and our internal appraisers. Single family appraisals are generally reviewed by our single family loan underwriters. Single family appraisals with unusual, higher risk or complex characteristics, as well as commercial real estate appraisals, are reviewed by our appraisal department.

For further information on the fair value of financial instruments, single family MSR's and OREO, see Note 1—Summary of Significant Accounting Policies, Note 13—Mortgage Banking Operations and Note 18—Fair Value Measurements in the notes to the financial statements of this Form 10-K.

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.

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.

The Company 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

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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 the Company 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.

The Company 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. For further information regarding income taxes, see Note 15–Income Taxes to the financial statements of this Form 10-K.

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Results of Operations

Average Balances and Rates

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)	Year Ended December 31,			2012				
	2013 Average Balance	Interest	Average Yield/Cost	Average Balance	Interest	Average Yield/Cost		
Assets:								
Interest-earning assets: ⁽¹⁾								
Cash & cash equivalents	\$29,861	\$73	0.24	% \$94,478	\$231	0.24	%	
Investment securities	515,000	14,608	2.84	410,819	11,040	2.69		
Loans held for sale	381,129	14,180	3.72	359,056	12,719	3.56		
Loans held for investment	1,496,146	62,384	4.17	1,303,010	58,490	4.49		
Total interest-earning assets	2,422,136	91,245	3.77	2,167,363	82,480	3.81		
Noninterest-earning assets ⁽²⁾	296,078			236,497				
Total assets	\$2,718,214			\$2,403,860				
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	⁽³⁾ 4.03	61,857	1,333	2.16		
Other borrowings	73,976	257	—	—	16	—		
Total interest-bearing liabilities	2,024,591	14,531	0.72	1,817,847	19,948	1.10		
Noninterest-bearing liabilities	444,542			374,684				
Total liabilities	2,469,133			2,192,531				
Shareholders' equity	249,081			211,329				
Total liabilities and shareholders' equity	\$2,718,214			\$2,403,860				
Net interest income ⁽⁴⁾		\$76,714			\$62,532			
Net interest spread			3.05	%		2.71	%	
			0.12	%		0.18	%	

Impact of
noninterest-bearing
sources

Net interest margin	3.17	%	2.89	%
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(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 the Company had deferred payment of interest. Excluding the impact of the prior period interest expense correction, the net interest margin was 3.23%.

(4) Includes taxable-equivalent adjustments primarily related to tax-exempt income on certain loans and securities of \$2.3 million and \$1.8 million for the years ended 2013 and 2012, respectively. The estimated federal statutory tax rate was 35% for the periods presented.

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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 \$686 thousand and \$1.1 million for the years ended December 31, 2013 and 2012, respectively.

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.

(in thousands)	Year Ended December 31, 2013 vs. 2012		Total Change
	Increase (Decrease) Due to Rate	Volume	
Assets:			
Interest-earning assets:			
Cash and cash equivalents	\$—	\$(158	) \$(158
Investment securities	762	2,806	3,568
Loans held for sale	675	786	1,461
Loans held for investment	(4,775	) 8,669	3,894
Total interest-earning assets	(3,338	) 12,103	8,765
Liabilities:			
Deposits:			
Interest-bearing demand accounts	129	298	427
Savings accounts	8	142	150
Money market accounts	(386	) 1,042	656
Certificate accounts	(1,819	) (5,970	) (7,789
Total interest-bearing deposits	(2,068	) (4,488	) (6,556
Federal Home Loan Bank advances	(4,079	) 3,823	(256
Securities sold under agreements to repurchase	(1	) (58	) (59
Long-term debt	1,203	10	1,213
Other borrowings	—	241	241
Total interest-bearing liabilities	(4,945) (472) (5,417
Total changes in net interest income	\$1,607	\$12,575	\$14,182

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Net Income

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 the Company 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 Federal Home Loan Bank ("FHLB").

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 FHLB advances. We prepaid certain long-term FHLB advances and used short-term FHLB advances to meet short-term mortgage origination and sales funding needs, which contributed to a 139 basis point decline in interest cost on FHLB advances.

Provision for Loan Losses

Management believes that the Company'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.

Provision for credit losses was \$900 thousand in 2013, compared to \$11.5 million in 2012, reflecting the improved credit quality of the Company'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

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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" in this Form 10-K.

Noninterest Income

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.

Noninterest income consisted of the following:

(in thousands)	Year Ended December 31,		Dollar	Percentage
	2013	2012	Change	Change
Net gain on mortgage loan origination and sale activities ⁽¹⁾	\$ 164,712	\$ 210,564	\$(45,852)	(22)%
Mortgage servicing income	17,073	16,121	952	6
Income from WMS Series LLC	704	4,264	(3,560)	(83)
Loss on debt extinguishment	—	(939)	939	(100)
Depositor and other retail banking fees	3,172	3,062	110	4
Insurance agency commissions	864	743	121	16
Gain on sale of investment securities available for sale	1,772	1,490	282	19
Other	2,448	2,715	(267)	(10)
Total noninterest income	\$ 190,745	\$ 238,020	\$(47,275)	(20)%

(1) Single family and multifamily mortgage banking activities.

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The significant components of our noninterest income are described in greater detail, as follows.

Net gain on mortgage loan origination and sale activities consisted of the following:

(in thousands)	Year Ended December 31,		Dollar	Percentage	
	2013	2012	Change	Change	
Single family:					
Servicing value and secondary market gains ⁽¹⁾	\$ 128,391	\$ 175,655	\$(47,264)	(27)%
Loan origination and funding fees	30,051	30,037	14	—)%
Total single family	158,442	205,692	(47,250)	(23)
Multifamily	5,306	4,872	434	9	
Other	964	—	964	NM	
Net gain on mortgage loan origination and sale activities	\$ 164,712	\$ 210,564	\$(45,852)	(22)%
NM=Not meaningful					

Comprised of gains and losses on interest rate lock commitments (which considers the value of servicing), single (1) family loans held for sale, forward sale commitments used to economically hedge secondary market activities, and changes in the Company's repurchase liability for loans that have been sold.

Net gain on mortgage loan origination and sale activities was \$164.7 million in 2013, a decrease of \$45.9 million, or 21.8%, from \$210.6 million in 2012. This decrease predominantly reflected substantially lower mortgage interest rate lock commitment volumes and lower secondary marketing gains. Commitment volumes declined mainly due to the rise in mortgage interest rates beginning in the second quarter of 2013, causing a significant decrease in refinancing activity that was only partially offset by a slightly stronger purchase mortgage market. This impact was partially mitigated by the expansion of our mortgage lending operations as we added approximately 120 mortgage origination and support personnel during 2013.

Single family production volumes related to loans designated for sale consisted of the following:

(in thousands)	Year Ended December 31,		Dollar	Percentage	
	2013	2012	Change	Change	
Single family mortgage closed loan volume ⁽¹⁾	\$4,459,649	\$4,668,167	\$(208,518)	(4)%
Single family mortgage interest rate lock commitments ⁽²⁾	\$3,907,274	\$4,786,667	\$(879,393)	(18)%
(1)Represents single family mortgage originations designated for sale during each respective period.					
(2)Includes loans originated by WMS Services LLC ("WMS") and purchased by HomeStreet Bank.					

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.

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The Company 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 the Company's mortgage repurchase liability within the respective line items of net gain on mortgage loan origination and sale activities. For further information on the Company's mortgage repurchase liability, see Note 14, Commitments, Guarantees and Contingencies to the financial statements of this Form 10-K.

(in thousands)	Year Ended December 31,	
	2013	2012
Effect of changes to the mortgage repurchase liability recorded in net gain on mortgage loan origination and sale activities:		
New loan sales ⁽¹⁾	\$(1,828	) \$(1,348)
Other changes in estimated repurchase losses ⁽²⁾	—	(2,969)
	\$(1,828	) \$(4,317)

⁽¹⁾ Represents the estimated fair value of the repurchase or indemnity obligation recognized as a reduction of proceeds on new loan sales.

⁽²⁾ Represents changes in estimated probable future repurchase losses on previously sold loans.

Mortgage servicing income consisted of the following:

(in thousands)	Year Ended December 31,		Dollar	Percent	
	2013	2012	Change	Change	
Servicing income, net:					
Servicing fees and other	\$34,173	\$27,833	\$6,340	23	%
Changes in fair value of MSR due to modeled amortization ⁽¹⁾	(20,533)	(20,662)	129	(1)
Amortization	(1,803)	(2,014)	211	(10)
	11,837	5,157	6,680	130	%
Risk management:					
Changes in fair value of MSR due to changes in model inputs and/or assumptions ⁽²⁾	25,668	(11,018)	36,686	(333)%
Net (loss) gain from derivatives economically hedging MSRs	(20,432)	21,982	(42,414)	(193)
	5,236	10,964	(5,728)	(52)
Mortgage servicing income	\$17,073	\$16,121	\$952	6	%

⁽¹⁾ Represents changes due to collection/realization of expected cash flows and curtailments.

⁽²⁾ Principally reflects changes in model assumptions, including prepayment speed assumptions, which are primarily affected by changes in mortgage interest rates.

For the year ended December 31, 2013, mortgage servicing income of \$17.1 million increased \$1.0 million from \$16.1 million in 2012, primarily due to increased servicing fees collected during 2013 on the Company'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 MSR due to changes in model inputs and assumptions net of the gain/(loss) from derivatives economically hedging MSRs. The fair value of MSR is sensitive to changes in interest rates, primarily due to the effect on prepayment speeds. MSR 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 the Company'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 the Company's MSRs, which led the Company 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,

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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.

(in thousands)	Year Ended December 31,		Dollar	Percent	
	2013	2012	Change	Change	
Monthly maintenance and deposit-related fees	\$1,568	\$1,569	\$(1))	—
Debit Card/ATM fees	1,523	1,396	127	)	9
Other fees	81	97	(16)	)	(16)
Total depositor and other retail banking fees	\$3,172	\$3,062	\$110	)	4

Insurance agency commissions increased to \$864 thousand from \$743 thousand in 2012. This increase in commissions primarily resulted from increased personal and casualty insurance line sales.

Gain on investment securities available for sale was \$1.8 million in 2013 compared to \$1.5 million in 2012, as the Company re-balanced its portfolio and provided liquidity for the growth in lending volumes.

Other income was \$2.4 million in 2013, relatively consistent with \$2.7 million in 2012.

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Noninterest Expense

Noninterest expense was \$229.5 million in 2013, an increase of \$45.9 million, or 25.0%, from \$183.6 million in 2012. Included in noninterest expense in 2013 were acquisition-related expenses of \$4.5 million. The increase in noninterest expense was primarily the result of a \$29.6 million increase in salaries and related costs and a \$12.5 million increase in general and administrative expenses resulting from a 37% growth in personnel in connection with our continued expansion of our mortgage banking and commercial and consumer businesses. These additions to personnel were partially offset by attrition and position eliminations in mortgage production, mortgage operations, and in commercial lending and administration. Position eliminations in 2013 were in response to a slowdown in mortgage activity and the integration of our acquisitions and were intended to improve efficiency and performance. These increases in noninterest expense were partially offset by significantly lower other real estate owned ("OREO") expenses, which were \$1.8 million in 2013, a decrease of \$8.3 million from OREO expense of \$10.1 million in 2012.

Noninterest expense consisted of the following:

(in thousands)	Year Ended		Dollar Change	Percentage Change	
	December 31, 2013	2012			
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 cost of operation and sale of other real estate owned	1,811	10,085	(8,274)	(82))
Total noninterest expense	\$ 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 Company 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 the Company'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.

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

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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

The Company'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. The Company's 2013 tax expense is based on the annual effective income tax rate plus discrete benefits recognized during the year. The Company'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.

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Comparison of the year ended 2012 to the year ended 2011

Average Balances and Rates

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, for years ended December 31, 2012 and 2011 were as follows:

(in thousands)	Year Ended December 31, 2012			2011			
	Average Balance	Interest	Average Yield/Cost	Average Balance	Interest	Average Yield/Cost	
Assets:							
Interest-earning assets ⁽¹⁾ :							
Cash & cash equivalents	\$94,478	\$231	0.24	% \$159,031	\$465	0.29	%
Investment securities	410,819	11,040	2.69	306,813	7,083	2.31	
Loans held for sale	359,056	12,719	3.56	126,038	5,602	4.44	
Loans held for investment	1,303,010	58,490	4.49	1,477,976	66,342	4.49	
Total interest-earning assets	2,167,363	82,480	3.81	2,069,858	79,492	3.84	
Noninterest-earning assets ⁽²⁾	236,497			229,943			
Total assets	\$2,403,860			\$2,299,801			
Liabilities and shareholders' equity:							
Deposits:							
Interest-bearing demand accounts	\$151,029	\$498	0.33	% \$129,254	\$575	0.44	%
Savings accounts	90,246	395	0.44	57,513	335	0.58	
Money market accounts	613,546	3,243	0.53	450,362	3,018	0.67	
Certificate accounts	790,038	12,605	1.60	1,177,335	20,887	1.77	
Deposits	1,644,859	16,741	1.02	1,814,464	24,815	1.37	
Federal Home Loan Bank advances	93,325	1,788	1.91	93,755	3,821	4.08	
Securities sold under agreements to repurchase	17,806	70	0.39	—	—	—	
Long-term debt	61,857	1,333	2.16	62,506	2,046	3.27	
Other borrowings	—	16	—	—	16	—	
Total interest-bearing liabilities	1,817,847	19,948	1.10	1,970,725	30,698	1.56	
Other noninterest-bearing liabilities	374,684			260,539			
Total liabilities	2,192,531			2,231,264			
Shareholders' equity	211,329			68,537			
Total liabilities and shareholders' equity	\$2,403,860			\$2,299,801			
Net interest income ⁽³⁾		\$62,532			\$48,794		
Net interest spread			2.71	%		2.28	%
			0.18	%		0.08	%

Impact of
noninterest-bearing
sources

Net interest margin	2.89	%	2.36	%
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(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 other real estate owned.

Includes taxable-equivalent adjustments primarily related to tax-exempt income on certain loans and securities of

(3) \$1.8 million and \$300 thousand for the years ended 2012 and 2011, respectively. The estimated federal statutory tax rate was 35% for the periods presented.

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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 \$1.1 million and \$4.9 million for the years ended December 31, 2012 and 2011, respectively.

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 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.

(in thousands)	Year Ended December 31, 2012 vs. 2011		Total Change
	Increase (Decrease) Due to Rate	Volume	
Assets:			
Interest-earning assets:			
Cash & cash equivalents	\$(67	) \$(167	) \$(234
Investment securities	1,288	2,669	3,957
Loans held for sale	(1,333	) 8,450	7,117
Loans held for investment	2	(7,854	) (7,852
Total interest-earning assets	(110	) 3,098	2,988
Liabilities:			
Deposits:			
Interest-bearing demand accounts	(164	) 87	(77
Savings accounts	(98	) 158	60
Money market accounts	(723	) 948	225
Certificate accounts	(1,941	) (6,341	) (8,282
Total interest-bearing deposits	(2,926	) (5,148	) (8,074
FHLB advances	(2,015	) (18	) (2,033
Securities sold under agreements to repurchase	—	70	70
Long-term debt	(692	) (21	) (713
Total interest-bearing liabilities	(5,633	) (5,117	) (10,750
Total changes in net interest income	\$5,523	\$8,215	\$13,738

For the year ended 2012, we reported net income of \$82.1 million compared to net income of \$16.1 million for 2011.

Net Interest Income

Net interest income on a tax equivalent basis increased \$13.7 million, or 28.2%, from 2011 to \$62.5 million for the year ended December 31, 2012. During 2012, total interest income increased \$3.0 million from 2011, while total interest expense declined \$10.8 million from 2011. The net interest margin for the year ended December 31, 2012 improved to 2.89% from 2.36% in 2011. Total average interest-earning assets increased in 2012 as higher mortgage production volumes resulted in a

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higher average balance of loans held for sale, partially offset by a decrease in cash and cash equivalents which was used to fund loans held for sale production. Average balances of investment securities increased primarily as a result of the investment of proceeds from our initial public offering. Total average interest-bearing deposit balances declined from 2011, mostly reflecting our deposit product and pricing strategies, resulting in a managed reduction of higher-cost certificates of deposit and replacement with transaction and savings deposits.

Total interest income on a tax equivalent basis of \$82.5 million in 2012 increased \$3.0 million, or 3.8%, from \$79.5 million in 2011, primarily driven by increased average interest-earning assets. Our average balance of loans held for sale increased by \$233.0 million, or 185%, due primarily to our increased closed loan volume during 2012. The increase in interest income also reflected a higher average balance of investment securities, which increased \$104.0 million, or 33.9%, in 2012 from 2011. We invested proceeds from the sale of loans and our initial public offering in investment securities with a shift towards higher-yielding municipal securities, resulting in an increase in yield on investment securities of 38 basis points. These increases were partially offset by a decrease in the average balance of loans held for investment, which decreased \$175.0 million, or 11.8%, compared to 2011 and a lower yield on average loans held for sale, which decreased 90 basis points as mortgage interest rates declined during 2012.

Total interest expense of \$19.9 million in 2012 decreased \$10.8 million, or 35.0%, from \$30.7 million in 2011. This decrease was primarily due to a \$387.3 million, or 32.9%, decline 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 and lending branch network. Also contributing to the decrease in interest expense was the restructuring of FHLB advances. We prepaid certain long-term advances and used short-term FHLB advances to meet short-term mortgage origination and sales funding needs, which contributed to a 217 basis point decline in interest cost on FHLB advances.

Provision for Loan Losses

Our loan loss provision expense for 2012 was \$11.5 million compared to \$3.3 million for 2011. Asset quality trends continued to improve as our nonperforming assets ("NPAs") of \$53.8 million at December 31, 2012 declined from \$115.1 million at December 31, 2011. Nonaccrual loans of \$29.9 million at December 31, 2012 declined \$46.6 million, or 60.9%, from \$76.5 million at December 31, 2011.

Net charge-offs of \$26.5 million for 2012 were up \$1.5 million from net charge-offs of \$25.1 million for 2011. 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.

Noninterest Income

Noninterest income was \$238.0 million for the year ended December 31, 2012, an increase of \$140.8 million, or 145%, from 2011. Our noninterest income is heavily dependent upon our single family mortgage banking activities, which are comprised of mortgage origination and sale activities and mortgage servicing activities. The level of our mortgage banking activity fluctuates and is influenced by mortgage interest rates, the economy, employment and housing affordability, among other factors. Noninterest income in 2012 benefited from increased single family loan production, as borrowers continued to take advantage of historically low mortgage interest rates, and the expansion of our mortgage lending operations. Our single family mortgage banking closed loan originations designated for sale increased to \$4.67 billion in 2012 from \$1.70 billion in 2011 as we continue to grow our mortgage origination and production capacity and increased our mortgage lending and support personnel by 146% during 2012. The increase in noninterest income, predominantly due to higher net gain on mortgage loan origination and sale activities, is detailed in the tables below.

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Noninterest income consisted of the following:

(in thousands)	Year Ended December 31,		Dollar	Percentage	
	2012	2011	Change	Change	
Net gain on mortgage loan origination and sale activities ⁽¹⁾	\$ 210,564	\$ 48,467	\$ 162,097	334	%
Mortgage servicing income	16,121	38,056	(21,935)	(58)
Income from WMS Series LLC	4,264	2,119	2,145	101	
Gain (loss) on debt extinguishment	(939)	2,000	(2,939)	(147)
Depositor and other retail banking fees	3,062	3,061	1	—	
Insurance agency commissions	743	910	(167)	(18)
Gain on investment securities available for sale	1,490	1,102	388	35	
Other	2,715	1,490	1,225	82	
Total noninterest income	\$ 238,020	\$ 97,205	\$ 140,815	145	%

(1) Single family and multifamily mortgage banking activities.

The significant components of our noninterest income are described in greater detail, as follows.

Net gain on mortgage loan origination and sale activities consisted of the following:

(in thousands)	Year Ended December 31,		Dollar	Percentage	
	2012	2011	Change	Change	
Single family:					
Servicing value and secondary market gains ⁽¹⁾	\$ 178,624	34,287	\$ 144,337	421	%
Provision for repurchase losses ⁽²⁾	(2,969)	(764)	(2,205)	289	
Net gain from secondary market activities	175,655	33,523	142,132	424	
Loan origination and funding fees	30,037	11,946	18,091	151	
Total single family	205,692	45,469	160,223	352	
Multifamily	4,872	2,998	1,874	63	
Net gain on mortgage loan origination and sale activities	\$ 210,564	\$ 48,467	\$ 162,097	334	%

NM=Not meaningful

Comprised of gains and losses on interest rate lock commitments (which considers the value of servicing), single (1) family loans held for sale, forward sale commitments used to economically hedge secondary market activities, and the estimated fair value of the repurchase or indemnity obligation recognized on new loan sales.

(2) Represents changes in estimated probable future repurchase losses on previously sold loans.

Net gain on mortgage loan origination and sale activities was \$210.6 million in 2012, an increase of \$162.1 million, or 334%, from \$48.5 million in 2011. This increase predominantly reflects increased single family loan production, as borrowers continued to take advantage of historically low mortgage interest rates, and the expansion of our mortgage lending operations as we added approximately 389 mortgage origination and support personnel during 2012.

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Single family production volumes of loans designated for sale consisted of the following:

(in thousands)	Year Ended December 31,		Dollar	Percentage	
	2012	2011	Change	Change	
Production volumes:					
Single family mortgage closed loan volume ⁽¹⁾	\$4,668,167	\$1,701,608	\$2,966,559	174	%
Single family mortgage interest rate lock commitments ⁽²⁾	\$4,786,667	\$1,772,617	\$3,014,050	170	%

(1) Represents single family mortgage originations designated for sale during each respective period.

(2) Includes loans originated by WMS and purchased by HomeStreet Bank.

During 2012, single family closed loan production increased 174% and single family interest rate lock commitments increased 170% from 2011. Our mortgage loan origination and sale revenue growth reflected our expansion of mortgage loan origination capacity and strong demand for both purchase and refinance mortgage loans in our markets, including refinances through the federal government's expanded Home Affordable Refinance Program, primarily driven by record low mortgage interest rates. Also contributing to the improvement in net gain on mortgage loan origination and sale activities was an increase in gross revenue per loan that persisted throughout 2012. We experienced historically high margins as a result of a combination of historically low mortgage interest rates, which increased demand for mortgage loan products, coupled with capacity constraints of mortgage loan providers to process the elevated demand, resulting from industry consolidation and other factors.

The Company records a provision for repurchase losses as a reduction to net gain on mortgage loan origination and sale activities, which was \$3.0 million for 2012, compared to \$764 thousand in 2011.

Mortgage servicing income consisted of the following.

(in thousands)	Year Ended December 31,		Dollar	Percent	
	2012	2011	Change	Change	
Servicing income, net:					
Servicing fees and other	\$27,833	\$26,125	\$1,708	7	%
Changes in fair value of MSR's due to modeled amortization ⁽¹⁾	(20,662)	(14,435)	(6,227)	43	
Amortization	(2,014)	(1,487)	(527)	35	
	5,157	10,203	(5,046)	(49))
Risk management:					
Changes in fair value of MSR's due to changes in model inputs and/or assumptions ⁽²⁾	(11,018)	(25,565)	14,547	(57))
Net gain from derivatives economically hedging MSR's	21,982	53,418	(31,436)	(59))
	10,964	27,853	(16,889)	(61))
Mortgage servicing income	\$16,121	\$38,056	\$(21,935)	(58))%
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.

For the year ended December 31, 2012, mortgage servicing income of \$16.1 million decreased \$21.9 million from \$38.1 million in 2011. This decrease was primarily due to 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 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

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changes in MSR fair value relate to factors other than interest rate changes and are generally not within the scope of the Company'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 the MSR risk management activities in 2012 was a gain of \$11.0 million compared to a gain of \$27.9 million in 2011. The lower gain in 2012 largely reflected a reduction in sensitivity to interest rates for the Company's MSRs, which enabled the Company 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 derivatives economically hedging MSRs, which negatively impacted mortgage servicing income. In addition, MSR risk management results for 2012 reflected the impact in the fair value of MSRs due to changes in model inputs and assumptions related to factors other than interest rate changes, which were not within the scope of the Company's MSR hedging strategy. Such factors included changes to the FHA streamlined refinance program and higher expected home values, both of which generally lead to higher projected prepayment speeds, and resulted in a decline in income from MSR risk management activities in 2012. The significant net gain from MSR risk management activities in 2011 resulted from a substantial widening of mortgage interest rates versus swap interest rates and lower realized prepayments.

Mortgage servicing fees collected in 2012 were \$27.8 million, an increase of \$1.7 million, or 6.5%, from \$26.1 million in 2011. Our loans serviced for others portfolio increased to \$9.65 billion at December 31, 2012 from \$7.70 billion at December 31, 2011.

Income from WMS Series LLC increased in 2012 to \$4.3 million from \$2.1 million in 2011. The increase was primarily due to an increase in closed loan volume and interest rate lock commitments, which were \$932.4 million and \$825.8 million, respectively, compared to \$541.4 million and \$521.8 million in 2011.

Gain (loss) on debt extinguishment recorded in 2012 was a loss of \$939 thousand, which represented a prepayment fee for the early retirement of \$25.5 million of long-term FHLB advances. This prepayment resulted in reduced interest expense in future periods as we replaced high-cost, long-term FHLB advances with other lower-cost, short-term borrowings. During 2011, we recorded a gain on debt extinguishment of \$2.0 million upon the early retirement of senior debt, which totaled \$5.0 million and was settled for \$3.0 million.

Insurance agency commissions decreased to \$743 thousand from \$910 thousand in 2011. This decrease in commissions resulted from decreased annuity sales.

Gain on investment securities available for sale was \$1.5 million in 2012 compared to \$1.1 million in 2011. The gain in 2012 was the result of rebalancing and ongoing maintenance of the portfolio.

Other income was \$2.7 million in 2012, up from \$1.5 million in 2011 primarily due to an increase in investment services activities.

Noninterest Expense

Noninterest expense was \$183.6 million in 2012, an increase of \$57.1 million, or 45%, from \$126.5 million in 2011. Noninterest expense increased primarily due to a \$66.3 million increase in salaries and related costs, reflecting higher commissions and incentives paid as loan production increased in 2012, and an increase in the number of employees as we expanded our mortgage production and support personnel and community banking business. Lower OREO expenses partially offset these increases in noninterest expense as valuation losses related to OREO decreased in 2012.

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Noninterest expense consisted of the following:

(in thousands)	Year Ended December 31,		Dollar Change	Percentage Change	
	2012	2011			
Noninterest expense					
Salaries and related costs	\$ 119,829	\$ 53,519	\$ 66,310	124	%
General and administrative	27,838	18,490	9,348	51	
Legal	1,796	3,360	(1,564)	(47)
Consulting	3,037	2,644	393	15	
Federal Deposit Insurance Corporation assessments	3,554	5,534	(1,980)	(36)
Occupancy	8,585	6,764	1,821	27	
Information services	8,867	5,902	2,965	50	
Net cost of operation and sale of other real estate owned	10,085	30,281	(20,196)	(67)
Total noninterest expense	\$ 183,591	\$ 126,494	\$ 57,097	45	%

The significant components of our noninterest expense are described in greater detail, as follows.

Salaries and related costs were \$119.8 million in 2012, an increase of \$66.3 million, or 124%, from \$53.5 million in 2011. The increase primarily resulted from a \$42.0 million increase in commissions and incentives paid reflecting strong growth in closed mortgage loan volume, and a \$20.6 million increase in base salaries and other payroll related costs as we increased our personnel to support our growing mortgage lending business as well as our commercial and consumer businesses. As of December 31, 2012, we increased full-time equivalent employees by 79% from December 31, 2011.

General and administrative expense was \$27.8 million in 2012, an increase of \$9.3 million, or 50.6%, from \$18.5 million in 2011. Included in this line item are general office and equipment expense, marketing, taxes and insurance. The increase in general and administrative expense in 2012 was primarily due to the overall growth in loan production volume and support personnel during 2012.

Legal expense was \$1.8 million in 2012, a decrease of \$1.6 million, or 46.5%, from \$3.4 million in 2011, as legal expense associated with our efforts to resolve problem loans and OREO declined. During 2011, we recognized \$600 thousand of legal expense associated with our capital raising efforts which were suspended during 2011.

FDIC assessments were \$3.6 million in 2012, a decrease of \$2.0 million, or 35.8%, from \$5.5 million in 2011, primarily due to an improvement in the Company's risk category, which reduced our fees to 14 basis points on average assets less average tangible equity capital beginning in the second quarter of 2012 from 23 basis points in 2011.

Occupancy expense was \$8.6 million in 2012, an increase of \$1.8 million, or 26.9%, from \$6.8 million in 2011 as we grew our mortgage banking business and consumer and commercial customer base with the opening of 15 new mortgage loan origination offices and two new retail deposit branches in 2012.

Information services expense was \$8.9 million in 2012, an increase of \$3.0 million, or 50.2%, from \$5.9 million in 2011. This increase was primarily due to company-wide systems and tools upgrades and a 79% increase in headcount.

Net cost of operation and sale of other real estate owned was \$10.1 million in 2012, a decrease of \$20.2 million from \$30.3 million in 2011. OREO valuation adjustments were \$12.2 million for 2012 compared to valuation adjustments of \$27.1 million in 2011. Valuation adjustments to OREO balances declined with the reduction in the net balance of

OREO properties in 2012. Declines in property values continued to slow, mitigating the severity of losses realized. Lower balances of OREO properties also resulted in decreased maintenance expenses.

Income Tax Expense (Benefit)

The Company's income tax expense was \$21.5 million for the year ended December 31, 2012 compared to an income tax benefit of \$214 thousand for the year ended December 31, 2011. The Company's annual effective income tax rate for the year of 20.8% differed from the Federal statutory tax rate of 35% primarily due to a \$14.4 million tax benefit related to the reversal of the Company's beginning of year valuation allowance against deferred tax assets in the second quarter of 2012 and

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recurring items, such as tax exempt income, mortgage reinsurance income and state income taxes in Oregon, Hawaii and Idaho. Our effective tax rate in 2011 differed from the Federal statutory tax rate due to a valuation allowance on deferred tax assets because of uncertainty in our ability to realize these assets in the future.

Capital Expenditures

During 2012, our net expenditures for property and equipment were \$11.4 million as we implemented our strategic initiatives such as branch expansions and the expansion of our single family mortgage lending capacity, as well as computer hardware upgrades and expansion of our corporate offices. We had no material capital expenditures in 2011.

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 the Company's portfolio. With the Company's improved credit position and excess capital, the investment in corporate debt securities provided diversification in the Company'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.

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,		2012	
	2013 Amortized Cost	Fair Value	Amortized Cost	Fair Value
Available for sale:				
Mortgage-backed securities:				
Residential	\$137,602	\$133,910	\$62,847	\$62,853
Commercial	13,391	13,433	13,720	14,380
Municipal bonds	136,937	130,850	123,695	129,175
Collateralized mortgage obligations:				
Residential	93,112	90,327	163,981	170,199
Commercial	17,333	16,845	8,983	9,043
Corporate debt securities	75,542	68,866	—	—
U.S. Treasury securities	27,478	27,452	30,670	30,679
Total available for sale	\$501,395	\$481,683	\$403,896	\$416,329

Mortgage-backed securities ("MBS") and collateralized mortgage obligations ("CMO") represent securities issued by government sponsored entities ("GSEs"). Each of the MBS and CMO securities in our investment portfolio are guaranteed by Fannie Mae, Ginnie Mae or Freddie Mac. Municipal bonds are comprised of general obligation bonds (i.e., backed by the general credit of the issuer) and revenue bonds (i.e., backed by revenues from the specific project being financed) issued by various municipal corporations. As of December 31, 2013 and 2012, all securities held, including municipal bonds and corporate debt securities, were rated investment grade based upon external ratings where available and, where not available,

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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 the Company 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	
	Fair Value	Weighted Average Yield	Fair Value	Weighted Average Yield	Fair Value	Weighted Average Yield	Fair Value	Weighted Average Yield	Fair Value	Weighted Average Yield
Mortgage-backed securities:										
Residential	\$—	— %	\$—	— %	\$10,581	1.63 %	\$123,329	1.82 %	\$133,910	1.81 %
Commercial	—	—	—	—	—	—	13,433	4.51	13,433	4.51
Municipal bonds	—	—	—	—	19,598	3.51	111,252	4.29	130,850	4.17
Collateralized mortgage obligations:										
Residential	—	—	—	—	19,987	2.31	70,340	2.17	90,327	2.20
Commercial	—	—	—	—	5,270	1.90	11,575	1.42	16,845	1.57
Corporate debt securities	—	—	—	—	32,848	3.31	36,018	3.75	68,866	3.54
U.S. Treasury securities	1,001	0.18	26,451	0.30	—	—	—	—	27,452	0.29
Total available for sale	\$1,001	0.18 %	\$26,451	0.30 %	\$88,284	2.84 %	\$365,947	2.92 %	\$481,683	2.75 %

(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										

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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	%		

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Each of the MBS and CMO securities in our investment portfolio are guaranteed by Fannie Mae, Ginnie Mae or Freddie Mac. Investments in these instruments involve a risk that actual prepayments will vary from the estimated prepayments over the life of the security. This may require adjustments to the amortization of premium or accretion of discount relating to such instruments, thereby changing the net yield on such securities. At December 31, 2013, the aggregate net premium associated with our MBS portfolio was \$10.5 million, or 8.7%, of the aggregate unpaid principal balance, compared with \$6.8 million or 9.8% at December 31, 2012. The aggregate net premium associated with our CMO portfolio as of December 31, 2013 was \$6.4 million, or 6.1%, of the aggregate unpaid principal balance, compared with \$7.6 million or 4.6% at December 31, 2012. There is also reinvestment risk associated with the cash flows from such securities and the market value of such securities may be adversely affected by changes in interest rates.

Management monitors the portfolio of securities classified as available for sale for impairment, which may result from credit deterioration of the issuer, changes in market interest rates relative to the rate of the instrument or changes in prepayment speeds. We evaluate each investment security on a quarterly basis to assess if impairment is considered other than temporary. In conducting this evaluation, management considers many factors, including but not limited to whether we expect to recover the entire amortized cost basis of the security in light of adverse changes in expected future cash flows, the length of time the security has been impaired and the severity of the unrealized loss. We also consider whether we intend to sell the security (or whether we will be required to sell the security) prior to recovery of its amortized cost basis, which may be at maturity.

Based on this evaluation, management concluded that unrealized losses as of December 31, 2013 were the result of changes in interest rates. Management does not intend to sell such securities nor is it likely it will be required to sell such securities prior to recovery of the securities' amortized cost basis. Accordingly, none of the unrealized losses as of December 31, 2013 were considered other than temporary.

Loans held for sale were \$279.9 million at December 31, 2013, compared to \$620.8 million as of December 31, 2012, a decrease of \$340.9 million, or 54.9%. Loans held for sale include single family and multifamily residential loans, typically sold within 30 days of closing the loan. The decrease in loans held for sale was primarily the result of rising mortgage interest rates and declining refinancing loan volume, coupled with low housing inventories that have constrained the purchase mortgage market.

Loans held for investment, net were \$1.87 billion at December 31, 2013, compared to \$1.31 billion as of December 31, 2012, an increase of \$562.8 million, or 43.0%. Our single family loan portfolio increased by \$231.0 million from December 31, 2012, primarily as a result of increased originations of mortgages that exceed conventional conforming loan limits. Our commercial real estate and multifamily loan balances increased a combined \$178.0 million and our commercial business loans increased \$91.5 million from December 31, 2012 primarily as a result of the growth of our commercial real estate lending business, both organically and through acquisition.

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The following table details the composition of our loans held for investment portfolio by dollar amount and as a percentage of our total loan portfolio.

	At December 31,		2012		2011		2010		2009		
(in thousands)	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 ⁽¹⁾	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/land 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 Amount	Percent	2012 Amount	Percent		
Adjustable-rate loans:						
Single family	\$508,232	26.8	% \$294,427	22.0		%
Commercial	293,548	15.5	218,181	16.3		
Multifamily	69,439	3.7	8,386	0.6		
Construction/land development, net ⁽¹⁾	70,028	3.7	40,268	3.0		
Commercial business	117,718	6.2	45,384	3.4		
Home equity	79,447	4.2	89,615	6.7		
Total adjustable-rate loans	1,138,412	59.9	696,261	52.0		
Fixed-rate loans:						
Single family	396,681	20.9	379,438	28.3		
Commercial	184,094	9.7	143,698	10.7		
Multifamily	9,777	0.5	8,626	0.6		
Construction/land development, net ⁽¹⁾	60,437	3.2	30,765	2.3		
Commercial business	53,336	2.8	34,192	2.6		
Home equity	56,203	3.0	47,131	3.5		
Total fixed-rate loans	760,528	40.1	643,850	48.0		
Total loans held for investment	1,898,940	100.0	% 1,340,111	100.0		%
Less:						
Deferred loan fees	(3,219)		(3,576)			
Allowance for loan losses	(23,908)		(27,561)			
Loans held for investment, net	\$1,871,813		\$1,308,974			

(1) Construction/land development is presented net of the undisbursed portion of the loan commitment.

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The following tables show the contractual maturity of our loan portfolio by loan type.

(in thousands)	At December 31, 2013			Total	Loans due after one year by rate characteristic	
	Within one year	After one year through five years	After five years		Fixed- rate	Adjustable- rate
Consumer:						
Single family	\$2,117	\$11,889	\$890,907	\$904,913	\$396,580	\$506,215
Home equity	1,001	3,231	131,418	135,650	56,107	78,542
Total consumer	3,118	15,120	1,022,325	1,040,563	452,687	584,757
Commercial:						
Commercial real estate	21,265	107,259	349,118	477,642	177,567	278,810
Multifamily	—	4,255	74,961	79,216	9,777	69,439
Construction/land development	75,019	45,404	10,042	130,465	24,259	31,187
Commercial business	99,374	46,030	25,650	171,054	43,016	28,661
Total commercial	195,658	202,948	459,771	858,377	254,619	408,097
Total loans held for investment	\$198,776	\$218,068	\$1,482,096	\$1,898,940	\$707,306	\$992,854

(in thousands)	At December 31, 2012			Total	Loans due after one year by rate characteristic	
	Within one year	After one year through five years	After five years		Fixed- rate	Adjustable- rate
Consumer:						
Single family	\$669	\$10,721	\$662,475	\$673,865	\$378,770	\$294,426
Home equity	2	1,924	134,820	136,746	47,130	89,614
Total consumer	671	12,645	797,295	810,611	425,900	384,040
Commercial:						
Commercial real estate	37,412	180,613	143,854	361,879	134,870	189,597
Multifamily	—	5,161	11,851	17,012	8,181	8,831
Construction/land development	46,920	18,136	5,977	71,033	5,636	18,477
Commercial business	44,053	23,690	11,833	79,576	29,760	5,763
Total commercial	128,385	227,600	173,515	529,500	178,447	222,668
Total loans held for investment	\$129,056	\$240,245	\$970,810	\$1,340,111	\$604,347	\$606,708

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The following table presents the loan portfolio by loan type and region as of December 31, 2013.

(in thousands)	Washington Puget Sound King ⁽¹⁾	Snohomish ⁽³⁾	Pierce ⁽¹⁾	Thurston ⁽³⁾	Vancouver & Other ⁽²⁾⁽³⁾	Spokane ⁽²⁾⁽³⁾⁽¹⁾	Kitsap/Jefferson/Clallam
Consumer:							
Single family	\$464,120	\$89,921	\$51,267	\$17,703	\$41,348	\$30,883	\$14,192
Home equity	56,491	15,722	10,406	4,557	8,706	3,957	5,211
	520,611	105,643	61,673	22,260	50,054	34,840	19,403
Commercial:							
Commercial real estate	238,663	54,068	22,007	23,987	624	56,673	6,942
Multifamily	25,342	3,183	16,729	515	—	12,497	—
Construction/land development	60,547	11,825	11,532	5,449	13,185	16,729	269
Commercial business	122,396	1,248	7,702	—	149	31,973	1,293
	446,948	70,324	57,970	29,951	13,958	117,872	8,504
Total loans	\$967,559	\$175,967	\$119,643	\$52,211	\$64,012	\$152,712	\$27,907

(in thousands)	Idaho Boise ⁽²⁾	Oregon Portland ⁽²⁾⁽³⁾	Bend ⁽²⁾⁽³⁾	Salem ⁽²⁾	Hawaii	Other ⁽⁴⁾	Total
Consumer:							
Single family	\$12,001	\$67,387	\$19,246	\$12,656	\$38,832	\$45,357	\$904,913
Home equity	91	13,348	3,257	4,218	8,678	1,008	135,650
	12,092	80,735	22,503	16,874	47,510	46,365	1,040,563
Commercial:							
Commercial real estate	589	50,261	8,009	6,725	—	9,094	477,642
Multifamily	—	13,282	7,668	—	—	—	79,216
Construction/land development	2,331	3,813	3,272	—	1,513	—	130,465
Commercial business	—	2,318	47	—	3	3,925	171,054
	2,920	69,674	18,996	6,725	1,516	13,019	858,377
Total loans	\$15,012	\$150,409	\$41,499	\$23,599	\$49,026	\$59,384	\$1,898,940

(1)Refers to a specific county.

(2)Refers to a specific city.

(3)Also includes surrounding counties.

(4)Includes California, Alaska and Florida.

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The following table presents the loan portfolio by loan type and region as of December 31, 2012.

(in thousands)	Washington Puget Sound		Pierce ⁽¹⁾	Thurston ⁽³⁾	Vancouver & Other ⁽²⁾⁽³⁾	Spokane ⁽²⁾⁽³⁾⁽¹⁾	Kitsap/Jefferson/Clallam
	King ⁽¹⁾	Snohomish ⁽³⁾					
Consumer:							
Single family	\$321,285	\$81,544	\$53,788	\$17,702	\$32,282	\$24,443	\$ 9,961
Home equity	55,829	17,436	11,739	5,037	8,209	2,783	3,899
	377,114	98,980	65,527	22,739	40,491	27,226	13,860
Commercial:							
Commercial real estate	163,949	83,028	15,391	20,388	645	4,632	13,261
Multifamily	8,274	3,406	—	542	—	—	—
Construction/land development	12,777	1,527	32,762	6,923	1,773	5,771	—
Commercial business	64,998	4,667	3,642	15	457	—	1,253
	249,998	92,628	51,795	27,868	2,875	10,403	14,514
Total loans	\$627,112	\$191,608	\$117,322	\$50,607	\$43,366	\$37,629	\$ 28,374

(in thousands)	Idaho	Oregon	Bend ⁽²⁾⁽³⁾	Salem ⁽²⁾	Hawaii	Other ⁽⁴⁾	Total
	Boise ⁽²⁾	Portland ⁽²⁾⁽³⁾					
Consumer:							
Single family	\$7,873	\$58,945	\$17,543	\$12,968	\$35,531	\$—	\$673,865
Home equity	43	14,100	3,165	4,836	9,595	75	136,746
	7,916	73,045	20,708	17,804	45,126	75	810,611
Commercial:							
Commercial real estate	—	35,652	11,530	6,925	48	6,430	361,879
Multifamily	—	1,898	2,892	—	—	—	17,012
Construction/land development	—	1,179	4,588	3,006	727	—	71,033
Commercial business	—	4,191	—	—	21	332	79,576
	—	42,920	19,010	9,931	796	6,762	529,500
Total loans	\$7,916	\$115,965	\$39,718	\$27,735	\$45,922	\$6,837	\$1,340,111

(1)Refers to a specific county.

(2)Refers to a specific city.

(3)Also includes surrounding counties.

(4)Includes Alaska and Florida.

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

(in thousands)	December 31, 2013						Total
	Prior to 2000	2000- 2004	2005- 2008	2009- 2010	2011- 2012	2013	
Consumer							
Single family	\$7,236	\$25,471	\$195,559	\$136,240	\$168,885	\$371,522	\$904,913
Home equity	3	17,919	93,304	4,819	2,704	16,901	135,650
	7,239	43,390	288,863	141,059	171,589	388,423	1,040,563
Commercial							
Commercial real estate	361	10,041	205,754	20,263	109,308	131,915	477,642
Multifamily	—	63	12,199	1,115	5,416	60,423	79,216
Construction/land development	—	—	14,155	411	19,789	96,110	130,465
Commercial business	52	892	29,980	14,493	43,110	82,527	171,054
	413	10,996	262,088	36,282	177,623	370,975	858,377
Total loans	\$7,652	\$54,386	\$550,951	\$177,341	\$349,212	\$759,398	\$1,898,940

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

(in thousands)	December 31, 2012						Total
	Prior to 2000	2000- 2004	2005- 2008	2009- 2010	2011	2012	
Consumer							
Single family	\$8,255	\$35,722	\$243,341	\$148,622	\$19,726	\$218,199	\$673,865
Home equity	6	21,554	108,970	4,807	1,029	380	136,746
	8,261	57,276	352,311	153,429	20,755	218,579	810,611
Commercial							
Commercial real estate	234	18,679	258,995	5,388	18,822	59,761	361,879
Multifamily	—	—	13,606	—	—	3,406	17,012
Construction/land development	—	—	49,909	648	1,351	19,125	71,033
Commercial business	—	1,825	37,485	12,143	3,037	25,086	79,576
	234	20,504	359,995	18,179	23,210	107,378	529,500
Total loans	\$8,495	\$77,780	\$712,306	\$171,608	\$43,965	\$325,957	\$1,340,111

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The following table presents loan origination and loan sale volumes.

(in thousands)	Year Ended December 31,		
	2013	2012	2011
Loans originated:			
Real estate:			
Single family:			
Originated by HomeStreet	\$4,176,187	\$3,969,082	\$1,179,863
Originated by WMS Series LLC	694,416	932,377	541,401
Single family	4,870,603	4,901,459	1,721,264
Multifamily	90,967	115,274	129,558
Commercial real estate	129,531	49,982	3,000
Construction/land development	255,314	54,187	12,448
Total real estate	5,346,415	5,120,902	1,866,270
Commercial business	109,735	35,606	5,395
Home equity	—	—	—
Total loans originated	\$5,456,150	\$5,156,508	\$1,871,665
Loans sold:			
Single family	\$4,733,473	\$4,170,840	\$1,739,220
Multifamily	104,016	118,805	119,478
Total loans sold	\$4,837,489	\$4,289,645	\$1,858,698

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.

FHLB Stock was \$35.3 million at December 31, 2013, compared to \$36.4 million at December 31, 2012. FHLB stock is carried at par value and can only be purchased or redeemed at par value in transactions between the FHLB and its member institutions. Both cash and stock dividends received on FHLB stock are reported in earnings.

On November 6, 2009, the FHLB's regulator defined its capital classification as undercapitalized. Under the Federal Housing Finance Agency (the "Finance Agency") regulations, a 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 FHLB as adequately capitalized but the 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 FHLB's fulfillment of many of the requirements set forth in the 2010 consent order and improvements in the 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 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 FHLB as compared to the capital stock amount for the FHLB and the length of time this situation has persisted, (2) commitments by the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance of the FHLB, (3) the impact of legislative and regulatory

changes on institutions and, accordingly, on the customer base of the FHLB and (4) the liquidity position of the FHLB. The FHLB continues to benefit from a superior credit rating from Standard & Poor's, which allows the 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 FHLB stock investment as of December 31, 2013 or December 31, 2012.

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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, the Company 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	2011
Noninterest-bearing accounts - checking and savings	\$ 164,437	\$ 83,563	\$ 69,276
Interest-bearing transaction and savings deposits:			
NOW accounts	297,965	174,699	138,936
Statement savings accounts due on demand	156,181	103,932	66,898
Money market accounts due on demand	919,322	683,906	499,457
Total interest-bearing transaction and savings deposits	1,373,468	962,537	705,291
Total transaction and savings deposits	1,537,905	1,046,100	774,567
Certificates of deposit	514,400	655,467	1,033,798
Noninterest-bearing accounts - other	158,516	275,268	201,390
Total deposits	\$2,210,821	\$ 1,976,835	\$ 2,009,755

Borrowings

FHLB advances were \$446.6 million at December 31, 2013, compared with \$259.1 million as of December 31, 2012. FHLB advances may be collateralized by stock in the FHLB, cash, pledged mortgage-backed securities, real estate-secured commercial loans and unencumbered qualifying mortgage loans. As of December 31, 2013, 2012 and 2011, FHLB borrowings had weighted average interest rates of 0.43%, 0.60% and 4.67%, respectively. Of the total 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 FHLB as of December 31, 2013 and December 31, 2012, respectively. Our lending agreement permits the 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 FHLB gives notice to the Bank of an intention to take any of a list of permissible actions following the occurrence of specified events or conditions affecting the Bank. 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, the Company 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

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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

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.

The Company 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.

Return on Equity and Assets

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 the Company's initial public offering of common stock completed in February 2012 and changes in the annual effective income tax rate between periods. During 2012, the Company benefited from the full reversal of its deferred tax asset valuation allowances.

(in thousands)	Year Ended December 31,			
	2013	2012	2011	
Return on assets ⁽¹⁾	0.88	% 3.42	% 0.70	%
Return on equity ⁽²⁾	9.56	% 38.86	% 23.52	%
Equity to assets ratio ⁽³⁾	9.16	% 8.79	% 2.98	%

(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

The Company'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 the Company'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, the Company realigned its business segments and organized them into two lines of business: Commercial and Consumer Banking and Mortgage Banking. In conjunction with this realignment, the Company 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.

We use various management accounting methodologies to assign certain balance sheet and income statement items to the responsible business segments, including:

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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 the Company’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 the Company’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 the Company’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 the Company generally retains the servicing rights. 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. This segment is also responsible for the management of the Company’s portfolio of investment securities.

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Commercial and Consumer Banking segment results are detailed below.

(in thousands)	Year Ended December 31,		
	2013	2012	2011
Net interest income	\$59,172	\$46,626	\$44,576
Provision for loan losses	900	11,500	3,300
Noninterest income	8,041	9,786	13,199
Noninterest expense	63,767	63,227	79,893
Income (loss) before income taxes	2,546	(18,315)	(25,418)
Income tax (benefit) expense	(91)	(3,821)	(111)
Net income (loss)	\$2,637	\$(14,494)	\$(25,307)
Average assets	\$2,122,846	\$1,849,036	\$2,068,951
Pre-tax pre-provision profit (loss) ⁽¹⁾	3,446	(6,815)	(22,118)
Efficiency ratio ⁽²⁾	94.87	% 112.08	% 138.28 %
Full-time equivalent employees (ending)	577	413	313
Net gain on mortgage loan origination and sale activity:			
Multifamily	\$5,306	\$4,872	\$2,998
Other	964	—	—
	\$6,270	\$4,872	\$2,998
Commercial and Consumer Banking production volumes:			
Multifamily mortgage originations	\$90,968	\$112,074	\$125,676
Multifamily mortgage loans sold	\$104,016	\$118,805	\$119,477

Pre-tax pre-provision profit is total net revenue (net interest income and noninterest income) less noninterest (1) expense. The Company 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 the Company's loan portfolio resulted in a \$10.6 million lower provision for loan losses in 2013 compared to 2012.

Commercial and Consumer Banking had a net loss of \$14.5 million for the year ended December 31, 2012, compared to a net loss of \$25.3 million for the year ended December 31, 2011. The improvement in 2012 was primarily due to an increase in net interest income, which in large part reflects the execution of our deposit product and pricing strategies.

Commercial and Consumer Banking servicing income consisted of the following.

(in thousands)	Year Ended December 31,		
	2013	2012	2011

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Servicing income, net:			
Servicing fees and other	\$3,174	\$3,396	\$4,258
Amortization of multifamily MSR	(1,803)	(2,014)	(1,487)
Commercial mortgage servicing income	\$1,371	\$1,382	\$2,771

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Commercial and Consumer Banking loans serviced for others consisted of the following.

(in thousands)	Year Ended December 31,	
	2013	2012
Commercial		
Multifamily	\$720,429	\$727,118
Other	95,673	53,235
Total commercial loans serviced for others	\$816,102	\$780,353

Commercial and Consumer Banking noninterest expense of \$63.8 million increased \$540 thousand, or 0.9%, from \$63.2 million in 2012, primarily due to increased salaries and related costs, reflecting the growth of our commercial real estate and commercial business lending units and the expansion of our branch banking network, partially offset by the elimination of certain positions in commercial lending and administration in response to our acquisitions and which was intended to improve efficiency and performance.

Mortgage Banking Segment

Mortgage Banking originates and purchases single family residential mortgage loans for sale to investors in the secondary market. We purchase loans from WMS Series LLC through a correspondent arrangement between HomeStreet Bank and that company. The majority of our mortgage loans are sold to or securitized by Fannie Mae, Freddie Mac or Ginnie Mae, while we retain the right to service these loans. A small percentage of our loans are brokered or sold on a servicing-released basis to correspondent lenders. We manage the loan funding and the interest rate risk associated with the secondary market loan sales and the retained servicing rights within this business segment.

(in thousands)	Year Ended December 31,		
	2013	2012	2011
Net interest income	\$15,272	\$14,117	\$3,918
Noninterest income	182,704	228,234	84,006
Noninterest expense	165,728	120,364	46,601
Income before income taxes	32,248	121,987	41,323
Income tax expense	11,076	25,367	(103)
Net income	\$21,172	\$96,620	\$41,426
Average assets	\$595,368	\$554,824	\$230,850
Efficiency ratio ⁽¹⁾	83.71	% 49.67	% 53.00
Full-time equivalent employees (ending)	925	686	300
Production volumes for sale to the secondary market:			
Single family mortgage closed loan volume ⁽²⁾⁽³⁾	\$4,459,649	\$4,668,167	\$1,701,608
Single family mortgage interest rate lock commitments ⁽²⁾	3,907,274	4,786,667	1,772,617
Single family mortgage loans sold ⁽²⁾	4,733,473	4,170,840	1,739,220

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

(2) Includes loans originated by WMS Services LLC ("WMS") and purchased by HomeStreet Bank.

(3) Represents single family mortgage production volume designated for sale to the secondary market during each respective period.

Mortgage Banking net income was \$21.2 million for the year ended December 31, 2013, a decrease of \$75.4 million, or 78.1%, from net income of \$96.6 million for the year ended December 31, 2012. The decrease in Mortgage Banking net income for 2013 was driven primarily by higher mortgage interest rates that led to a sharp decrease in interest rate lock commitment volume. Since a substantial amount of the gain on loan origination and sale activities is recognized at the time of interest rate lock, higher mortgage interest rates in 2013 created an imbalance between the volume of interest rate lock commitments and

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closed loans. In periods where the volume of closed loans significantly exceeds the volume of interest rate lock commitments, noninterest expense will be higher relative to noninterest income because variable costs, notably commissions and incentives, are recognized at the time of closing the loan.

Mortgage Banking net income of \$96.6 million for the year ended December 31, 2012 increased \$55.2 million, or 133.2%, from \$41.4 million for the year ended December 31, 2011. The increase in net income primarily reflected elevated mortgage production volumes as net gain on mortgage loan origination and sale activities increased with the expansion of single family lending operations.

Mortgage Banking net gain on sale to the secondary market is detailed in the following table.

(in thousands)	Year Ended December 31,		
	2013	2012	2011
Net gain on mortgage loan origination and sale activities: ⁽¹⁾			
Single family:			
Servicing value and secondary market gains ⁽²⁾	\$ 128,391	\$ 178,624	\$ 34,287
Provision for repurchase losses ⁽³⁾	—	(2,969	) (764
Net gain from secondary market activities	128,391	175,655	33,523
Loan origination and funding fees	30,051	30,037	11,946
Total mortgage banking net gain on mortgage loan origination and sale activities ⁽¹⁾	\$ 158,442	\$ 205,692	\$ 45,469

(1) Excludes inter-segment activities.

Comprised of gains and losses on interest rate lock commitments (which considers the value of servicing), single

(2) family loans held for sale, forward sale commitments used to economically hedge secondary market activities, and the estimated fair value of the repurchase or indemnity obligation recognized on new loan sales.

(3) Represents changes in estimated probable future repurchase losses on previously sold loans.

Net gain on mortgage loan origination and sale activities was \$158.4 million for the year ended December 31, 2013, a decrease of \$45.9 million, or 21.8%, from \$205.7 million for the year ended December 31, 2012. This decrease is primarily the result of a 18.4% decrease in interest rate lock commitments, which was mainly driven by an increase in mortgage interest rates which began in the latter part of the second quarter of 2013, which led to a decrease in refinance mortgage volume, and a shift to a purchase mortgage-dominated market.

Mortgage Banking servicing income consisted of the following.

(in thousands)	Year Ended December 31,		
	2013	2012	2011
Servicing income, net:			
Servicing fees and other	\$ 30,999	\$ 24,437	\$ 21,867
Changes in fair value of MSR due to modeled amortization ⁽¹⁾	25,668	(20,662	) (14,421
	56,667	3,775	7,446
Risk management:			
Changes in fair value of MSR due to changes in model inputs and/or assumptions ⁽²⁾	(20,533	) (11,018	) \$(25,579
Net gain from derivatives economically hedging MSRs	(20,432	) 21,982	53,418
	(40,965	) 10,964	27,839
Mortgage Banking servicing income	\$ 15,702	\$ 14,739	\$ 35,285

(1) Represents changes due to collection/realization of expected cash flows and curtailments.

(2) Principally reflects changes in model assumptions, including prepayment speed assumptions, which are primarily affected by changes in mortgage interest rates.

Single family mortgage servicing income of \$15.7 million in the year ended December 31, 2013 increased by \$1.0 million from \$14.7 million in the year ended December 31, 2012. This increase was primarily due to increased servicing fees collected on

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the Company's single family mortgages, partially offset by mortgage servicing rights ("MSR") risk management results. Risk management results represent changes in the fair value of single family MSRs due to changes in model inputs and assumptions net of the gain/(loss) from derivatives economically hedging MSRs.

Single family mortgage servicing fees collected in the year ended December 31, 2013 increased \$6.6 million, or 26.9%, from the year ended December 31, 2012 primarily as a result of growth in the portfolio of single family loans serviced for others, which increased to \$11.80 billion at December 31, 2013 compared to \$8.87 billion at December 31, 2012.

Single family mortgage servicing income of \$14.7 million for the year ended December 31, 2012 decreased \$20.5 million from the year ended December 31, 2011, primarily due to risk management activities.

Single family loans serviced for others consisted of the following.

(in thousands)	At December 31,	
	2013	2012
Single family		
U.S. government and agency	\$11,467,853	\$8,508,458
Other	327,768	362,230
Total single family loans serviced for others	\$11,795,621	\$8,870,688

Mortgage Banking noninterest expense of \$165.7 million for the year ended December 31, 2013 increased \$45.4 million, or 37.7%, from \$120.4 million in 2012. This increase was primarily attributable to increased salaries and related costs due to our continued growth in loan production personnel and our expansion into new markets.

Off-Balance Sheet Arrangements

In the normal course of business, we are a party to financial instruments with off-balance sheet risk. These financial instruments (which include commitments to originate loans and commitments to purchase loans) include potential credit risk in excess of the amount recognized in the accompanying consolidated financial statements. These transactions are designed to (1) meet the financial needs of our customers, (2) manage our credit, market or liquidity risks, (3) diversify our funding sources and/or (4) optimize capital.

For more information on off-balance sheet arrangements, including derivative counterparty credit risk, see the "Commitments, Guarantees and Contingencies" discussions within Management's Discussion and Analysis, as well as Note 14, Commitments, Guarantees and Contingencies to the financial statements of this Form 10-K.

Commitments, Guarantees and Contingencies

We may incur liabilities under certain contractual agreements contingent upon the occurrence of certain events. Our known contingent liabilities include:

Unfunded loan commitments. We make certain unfunded loan commitments as part of our lending activities that have not been recognized in the Company's financial statements. These include commitments to extend credit made as part of our mortgage lending activities and interest rate lock commitments on loans we intend to hold in our loans held for investment portfolio. The aggregate amount of these unrecognized unfunded loan commitments existing at December 31, 2013 and December 31, 2012 was \$18.4 million and \$76.8 million, respectively.

Credit agreements. We extend secured and unsecured open-end loans to meet the financing needs of our customers. These commitments, which primarily related to unused home equity and commercial real estate lines of credit and business banking funding lines, totaled \$154.0 million and \$91.1 million at December 31, 2013 and December 31, 2012. Undistributed construction loan proceeds, where the Company has an obligation to advance funds for

construction progress payments, was \$168.5 million and \$34.5 million at December 31, 2013 and December 31, 2012, respectively. The total amounts of unused commitments do not necessarily represent future credit exposure or cash requirements in that commitments may expire without being drawn upon.

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Interest rate lock commitments. The Company writes options in the form of interest rate lock commitments on single family mortgage loans that are exercisable at the option of the borrower. We are exposed to market risk on interest rate lock commitments. The fair value of interest rate lock commitments existing at December 31, 2013 and December 31, 2012, was \$6.0 million and \$22.5 million, respectively. We mitigate the risk of future changes in the fair value of interest rate lock commitments primarily through the use of forward sale commitments.

Credit loss sharing. We originate, sell and service multifamily loans through the Fannie Mae DUS program.

Multifamily loans are sold to Fannie Mae subject to a loss sharing arrangement. HomeStreet Capital services the loans for Fannie Mae and shares in the risk of loss with Fannie Mae under the terms of the DUS contracts. Under the DUS program, the DUS lender is contractually responsible for the first 5% of losses and then shares equally in the remainder of losses with Fannie Mae with a maximum lender loss of 20% of the original principal balance of each DUS loan. The total principal balance of loans outstanding under the DUS program as of December 31, 2013 and December 31, 2012 was \$720.4 million and \$727.1 million, respectively, and our loss reserve was \$2.0 million and \$3.3 million as of December 31, 2013 and December 31, 2012, respectively.

Mortgage repurchase liability. In our single family lending business, we sell residential mortgage loans to GSEs that include the mortgage loans in GSE-guaranteed mortgage securitizations. In addition, the Company pools FHA-insured and Department of Veterans' Affairs ("VA")-guaranteed mortgage loans that are used to back Ginnie Mae-guaranteed securities. We have made representations and warranties that the loans sold meet certain requirements. We may be required to repurchase mortgage loans or indemnify loan purchasers due to defects in the origination process of the loan, such as documentation errors, underwriting errors and judgments, early payment defaults and fraud. These obligations expose us to any credit loss on the repurchased mortgage loans after accounting for any mortgage insurance that it may receive. Generally, the maximum amount of future payments we would be required to make for breaches of these representations and warranties would be equal to the unpaid principal balance of such loans that are deemed to have defects that were sold to purchasers plus, in certain circumstances, accrued and unpaid interest on such loans and certain expenses.

We do not typically receive repurchase requests from Ginnie Mae, FHA or VA. As an originator of FHA insured or VA guaranteed loans, we are responsible for obtaining the insurance with FHA or the guarantee with the VA. If loans are later found not to meet the requirements of FHA or VA, through required internal quality control reviews or through agency audits, we may be required to indemnify FHA or VA against loss. The loans remain in Ginnie Mae pools unless and until they qualify for voluntary repurchase by the Company. In general, once a FHA or VA loan becomes 90 days past due, we repurchase the FHA or VA loan to minimize the cost of interest advances on the loan. If the loan is cured through borrower efforts or through loss mitigation activities, the loan may be resold into a Ginnie Mae pool. The Company's liability for mortgage loan repurchase losses incorporates probable losses associated with such indemnification.

As of December 31, 2013 and December 31, 2012, the total principal balance of loans sold that were subject to the terms and conditions of these representations and warranties totaled \$11.89 billion and \$8.92 billion. We recorded a mortgage repurchase liability of \$1.3 million and \$2.0 million at December 31, 2013 and 2012, respectively, to reflect management's estimate of losses for loans for which we could have a repurchase obligation. Actual repurchase losses of \$2.5 million, \$2.8 million and \$826 thousand were incurred for the years ended December 31, 2013, 2012 and 2011, respectively.

Leases. The Company is obligated under non-cancelable leases for office space. The office leases also contain renewal and space options. Rental expense under non-cancelable operating leases totaled \$11.4 million, \$7.1 million and \$5.7 million for the years ended December 31, 2013, 2012 and 2011, respectively.

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Derivative Counterparty Credit Risk

Derivative financial instruments expose us to credit risk in the event of nonperformance by counterparties to such agreements. This risk consists primarily of the termination value of agreements where we are in a favorable position. Credit risk related to derivative financial instruments is considered within the fair value measurement of the instrument. We manage the credit risk associated with our various derivative agreements through counterparty credit review, counterparty exposure limits and monitoring procedures. From time to time, we may provide or obtain collateral from certain counterparties for amounts in excess of exposure limits as outlined by the counterparty credit policies of the parties. We have entered into agreements with derivative counterparties that include netting arrangements whereby the counterparties are entitled to settle their positions on a net basis. At December 31, 2013 and 2012, our net exposure to the credit risk of derivative counterparties was \$10.2 million and \$22.7 million.

Contractual Obligations

The following table summarizes our significant fixed and determinable contractual obligations, within the categories described below, by payment date or contractual maturity as of December 31, 2013. The payment amounts for financial instruments shown below represent principal amounts contractually due to the recipient and do not include any unamortized premiums or discounts, or other similar carrying value adjustments.

(in thousands)	Within one year	After one but within three years	After three but within five	More than five years	Total
Deposits ⁽¹⁾	\$2,095,020	\$96,571	\$19,230	\$—	\$2,210,821
FHLB advances	431,000	—	—	15,590	446,590
Trust preferred securities ⁽²⁾	—	—	—	64,950	64,950
Interest ⁽³⁾	5,963	9,521	5,837	24,265	45,586
Operating leases	11,856	23,433	14,421	4,115	53,825
Purchase obligations ⁽⁴⁾	4,147	5,578	—	—	9,725
Total	\$2,547,986	\$135,103	\$39,488	\$108,920	\$2,831,497

(1) Deposits with indeterminate maturities, such as demand, savings and money market accounts, are reflected as obligations due less than one year.

(2) Trust preferred securities is included in long-term debt on the consolidated statements of financial condition.

Represents the future interest obligations related to interest-bearing time deposits and long-term debt in the normal course of business. These interest obligations assume no early debt redemption. We estimated variable interest rate payments using December 31, 2013 rates, which we held constant until maturity.

(4) Represents agreements to purchase goods or services.

Enterprise Risk Management

All financial institutions manage and control a variety of business and financial risks that can significantly affect their financial performance. Among these risks are credit risk; market risk, which includes interest rate risk and price risk; liquidity risk; and operational risk. We are also subject to risks associated with compliance/legal, strategic and reputational matters.

The Company's Board of Directors (the "Board") and executive management have overall and ultimate responsibility for management of these risks. The Board, its committees and senior managers oversee the management of various risks. We review and assess these risks on an enterprise-wide basis periodically and as part of the annual strategic planning process. We use internal audits, quality control and loan review functions to assess the strength of and

adherence to risk management policies, internal controls and regulatory requirements. Similarly, external reviews, examinations and audits are conducted by regulators and others. In addition, our compliance, appraisal, corporate security and information security personnel provide additional risk management services in their areas of expertise. The Board and its committees (both for the Company and its subsidiaries) work closely with senior management in overseeing risk. Management recommends the appropriate level of risk in our strategic and business plans and in our board-approved credit and operating policies and has responsibility for measuring, managing, controlling and reporting on risks. The Board and its committees oversee the monitoring and controlling of significant risk exposures, including the policies governing risk management. The Board authorizes its committees to take any action on its behalf as described in their respective charter or as

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otherwise delegated by the Board, except as otherwise specifically reserved by law, regulation, other committees' charters or the Company's charter documents for action solely by the full board or another board committee. These committees include:

Audit Committee. The Audit Committee oversees the policies and management activities relating to our financial reporting, internal and external audit, regulatory, legal and compliance risks.

Finance Committee. The Finance Committee oversees the consolidated companies' activities related to balance sheet management, major financial risks including market, interest rate, liquidity and funding risks and counterparty risk management, including trading limits.

Credit Committee. The Credit Committee oversees the annual Loan Review Plan, lending policies, credit performance and trends, the allowance for credit loss policy and loan loss reserves, large borrower exposure and concentrations, and approval of broker/dealer relationships.

Human Resources and Corporate Governance Committee. The Human Resources and Corporate Governance Committee (the "HRCG") of HomeStreet, Inc. reviews all matters concerning our human resources, compensation, benefits, and corporate governance. HRCG's policy objectives are to ensure that HomeStreet and its operating subsidiaries meet their corporate objectives of attracting and retaining a well-qualified workforce, to oversee our human resource strategies and policies and to ensure processes are in place to assure compliance with employment laws and regulations.

Enterprise Risk Management Committee. The Enterprise Risk Management Committee (the "ERMC") oversees the Company's enterprise-wide risk management framework, including evaluating management's identification and assessment of the significant risks and the related infrastructure to address such risks and monitors the Company's compliance with its risk appetite and risk limit structures and effective remediation of non-compliance on an ongoing, enterprise-wide, and individual entity basis. The ERMC does not duplicate the risk oversight of the Board's other committees, but rather helps ensure end-to-end understanding and oversight of all risk issues in one Board committee and enhances the Board's and management's understanding of the Company's aggregate enterprise-wide risk appetite.

The following is a discussion of our risk management practices. The risks related to credit, liquidity, interest rate and price warrant in-depth discussion due to the significance of these risks and the impact they may have on our business.

Credit Risk Management

Credit risk is defined as the risk to current or anticipated earnings or capital arising from an obligor's failure to meet the terms of any contract with the Company, including those in the lending, securities and derivative portfolios, or otherwise perform as agreed. Factors relating to the degree of credit risk include the size of the asset or transaction, the contractual terms of the related documents, the credit characteristics of the borrower, the channel through which assets are acquired, the features of loan products or derivatives, the existence and strength of guarantor support, the availability, quality and adequacy of any underlying collateral and the economic environment after the loan is originated or the asset is acquired. Our overall portfolio credit risk is also impacted by asset concentrations within the portfolio.

Our credit risk management process is primarily governed centrally. Our overall credit process includes comprehensive credit policies, judgmental or statistical credit underwriting, frequent and detailed risk measurement and modeling and loan review, quality control and audit processes. In addition, we have an independent loan review function that reports directly to the Credit Committee of the Board, and internal auditors and regulatory examiners review and perform detailed tests of our credit underwriting, loan administration and allowance processes.

The Chief Credit Officer's primary responsibilities include directing the activities of the credit risk management function as it relates to the loan portfolio, overseeing loan portfolio performance and ensuring compliance with regulatory requirements and the Company's established credit policies, standards and limits, determining the reasonableness of our allowance for loan losses, reviewing and approving large credit exposures and delegating credit

approval authorities. Senior credit administrators who oversee the lines of business have both transaction approval authority and governance authority for the approval of procedures within established policies, standards and limits. The Chief Credit Officer reports directly to the Chief Executive Officer.

The Loan Committee provides direction and oversight within our risk management framework. The committee seeks to ensure effective portfolio risk analysis and policy review and to support sound implementation of defined business and risk strategies. Additionally, the Loan Committee periodically approves credits larger than the Chief Credit Officer's or Chief Executive

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Officer's individual approval authorities allow. The members of the Loan Committee are the Chief Executive Officer, Chief Credit Officer and the Commercial Banking Director.

The loan review department's primary responsibility includes the review of our loan portfolios to provide an independent assessment of credit quality, portfolio oversight and credit management, including accuracy of loan grading. Loan review also conducts targeted credit-related reviews and credit process reviews at the request of the Board and management and reviews a sample of newly originated loans for compliance with closing conditions and accuracy of loan grades. Loan review reports directly to the Credit Committee and administratively to the Compliance and Regulatory Affairs Director.

Credit limits for capital markets counterparties, including derivative counterparties, are defined in the Company's Counterparty Risk policy, which is reviewed annually by the Bank Loan Committee, with final approval by the Board Credit Committee. The treasury function is responsible for directing the activities related to securities and derivative portfolios, including overseeing derivative portfolio performance and ensuring compliance with established credit policies, standards and limits. The Chief Investment Officer and Treasurer reports directly to the Chief Executive Officer.

Appraisal Policy

An integral part of our credit risk management process is the valuation of the collateral supporting the loan portfolio, which is primarily comprised of loans secured by real estate. We maintain a Board-approved appraisal policy for real estate appraisals that conforms to the Uniform Standards of Professional Appraisal Practice ("USPAP") and FDIC regulatory requirements. Our Chief Appraiser, who is independent of the business unit and credit administration departments, is responsible for maintaining the appraisal policy and recommending changes to the policy subject to Loan Committee and Credit Committee approval.

Real Estate

Our appraisal policy requires that market value appraisals or evaluations be prepared at loan origination, subsequent loan extensions and for loan monitoring purposes. Our appraisals are prepared by independent third-party appraisers and our staff appraisers. Evaluations are prepared by independent qualified third-party providers. We use state certified and licensed appraisers with appropriate expertise as it relates to the subject property type and location. All appraisals contain "as is" values based upon the definition of market value as set forth in the FDIC appraisal regulations. For commercial properties we may also obtain "upon completion" and "upon stabilization" values as appropriate to the loan type and status. The appraisal standard for the non-tract development properties (four units or less) is retail value of individual units. For tract development properties with five or more units, the appraisal standard is the bulk value of the tract as a whole.

We review all appraisals and evaluations prior to approval of a loan transaction. Commercial real estate appraisals and evaluations are reviewed by our in-house appraisal staff. Non-complex single family appraisal reviews are conducted by our single family loan underwriters or appraisal department staff. Complex single family appraisals or appraisals with unusual characteristics are referred to our appraisal department for review.

For loan monitoring and problem loan management purposes our appraisal practices are as follows:

- We generally do not perform valuation monitoring for pass-graded credits due to minimal credit risk.

- For loans graded special mention, an appraisal is performed at the time of loan downgrade, and an appraisal or evaluation is performed at least every two years thereafter, depending upon property complexity, market area, market conditions, intended use and other considerations.

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For loans graded substandard or doubtful and for all OREO properties, we require an independent third-party appraisal at the time of downgrade or transfer to OREO and at least every twelve months thereafter until disposition or loan upgrade. For loans where foreclosure is probable, an appraisal or evaluation is prepared at the intervening six-month period prior to foreclosure.

In addition, if we determine that market conditions, changes to the property, changes in the intended use of the property or other factors indicate an appraisal is no longer reliable, we will also obtain an updated appraisal or evaluation and assess whether a change in collateral value requires an additional adjustment to carrying value.

Other

Our appraisal requirements for loans not secured by real estate, such as business loans secured by equipment, include valuation methods ranging from evidence of sales price or verification with a recognized guide for new equipment to a valuation opinion by a professional appraiser for multiple pieces of used equipment.

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Loan modifications

We have modified loans for various reasons for borrowers not experiencing financial difficulties. For example, we have extended maturities on certain loans to allow additional time for sales or leasing of residential and commercial real estate construction or rehabilitation projects. Other short-term extensions have been granted to allow time for receipt of appraisals and other financial reporting information to facilitate underwriting of loan extensions and renewals.

When there is a well-conceived and prudent workout plan that supports the ultimate collection of principal and interest, we may enter into a loan modification to help maximize the likelihood of success for a given workout strategy. In each case we also assess whether it is in the best interests of the Company to foreclose or modify the terms. We have made concessions such as interest-only payment terms, interest rate reductions, principal and interest forgiveness and payment restructures. Additionally, we have provided for concessions to construction and land development borrowers that focused primarily on forgiveness of principal in conjunction with settlement activities so as to allow us to acquire control of the real estate collateral. For single family mortgage borrowers, we have generally provided for granting interest rate reductions for periods of three years or less to reduce payments and provide the borrower time to resolve their financial difficulties. In each case, we carefully analyze the borrower's current financial condition to assure that they can make the modified payment.

Asset Quality and Nonperforming Assets

The primary markets in which we do business were impacted by the deterioration in the U.S. housing market that began in 2007. Faced with unfavorable market conditions, more borrowers with residential and commercial loans defaulted on their loans, thereby contributing to an increase in delinquency rates, which peaked in our loan portfolio during 2009 and continued to be higher than historical averages through 2012. We generally stopped our origination of new loans held for investment in 2008 to enable us to focus on problem loan resolution and improve overall asset quality. Beginning in 2009, we tightened our lending practices and underwriting standards as we shifted to primarily originating single family loans that conform to GSE parameters and Fannie Mae DUS multifamily loans, substantially all of which were designated for sale. With the successful completion of our initial public offering and the termination of the Bank Order, we restarted all of our traditional lines of lending in 2012 and again began to grow our loans held for investment portfolio.

Nonperforming assets decreased to \$38.6 million, or 1.26% of total assets at December 31, 2013, compared to \$53.8 million, or 2.05% of total assets at December 31, 2012. Nonaccrual loans of \$25.7 million, or 1.36% of total loans at December 31, 2013, declined \$4.2 million, or 14.0%, from \$29.9 million, or 2.24% of total loans at December 31, 2012. OREO balances of \$12.9 million at December 31, 2013 declined \$11.0 million, or 46.1%, from \$23.9 million at December 31, 2012. Net charge-offs in 2013 were \$4.6 million compared to \$26.5 million in 2012 and \$25.1 million in 2011.

As problem loans are resolved and credit losses are realized, the credit risk inherent within the loans held for investment portfolio declines. Consequently, the level of our allowance for loan losses has also declined. At December 31, 2013, our loans held for investment portfolio, excluding the allowance for loan losses, was \$1.90 billion, an increase of \$559.2 million from December 31, 2012, while the allowance for loan losses decreased to \$23.9 million, or 1.26% of loans held for investment, compared to \$27.6 million, or 2.06% of loans held for investment at December 31, 2012. The decrease in the allowance for loan losses as a percentage of loans held for investment primarily reflected improved credit quality of our loan portfolio.

Our provision for loan losses for 2013 was \$900 thousand compared to \$11.5 million for 2012 and \$3.3 million for 2011. Management considers the current level of the allowance for loan losses to be appropriate to cover estimated

incurred losses inherent within our loans held for investment portfolio.

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The following table presents the activity in our allowance for credit losses and those amounts that were collectively and individually evaluated for impairment at December 31, 2013, 2012 and 2011.

(in thousands)	December 31,		
	2013	2012	2011
Allowance for credit losses:			
Beginning balance	\$27,751	\$42,800	\$64,566
Charge-offs	(6,854	) (29,875	) (31,944
Recoveries	2,292	3,326	6,878
Provision	900	11,500	3,300
Ending balance	\$24,089	\$27,751	\$42,800
Collectively evaluated for impairment	\$21,518	\$21,383	\$24,083
Individually evaluated for impairment	2,571	6,368	18,717
Total	\$24,089	\$27,751	\$42,800
Loans held for investment:			
Collectively evaluated for impairment	\$1,779,071	\$1,216,146	\$1,170,259
Individually evaluated for impairment	119,869	123,965	177,365
Total	\$1,898,940	\$1,340,111	\$1,347,624

The allowance for credit losses represents management's estimate of the incurred credit losses inherent within our loan portfolio. For further discussion related to credit policies and estimates see "Critical Accounting Policies and Estimates — Allowance for Loan Losses" within Management's Discussion and Analysis of this Form 10-K.

The following table presents the recorded investment, unpaid principal balance and related allowance for impaired loans, broken down by those with and those without a specific reserve.

(in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance
Impaired loans:			
December 31, 2013			
Loans with no related allowance recorded	\$81,301	\$112,795	\$—
Loans with an allowance recorded	38,568	38,959	2,571
Total	\$119,869	\$151,754	\$2,571
December 31, 2012			
Loans with no related allowance recorded	\$53,615	\$67,262	\$—
Loans with an allowance recorded	70,350	72,220	6,368
Total	\$123,965	\$139,482	\$6,368
December 31, 2011			
Loans with no related allowance recorded	\$94,825	\$108,112	\$—
Loans with an allowance recorded	82,540	87,781	18,717
Total	\$177,365	\$195,893	\$18,717

The Company had 216 impaired relationships totaling \$119.9 million at December 31, 2013, and 167 impaired relationships totaling \$124.0 million at December 31, 2012. Included in the total impaired loan amounts were 169 single family troubled debt restructuring ("TDR") loan relationships totaling \$74.3 million at December 31, 2013 and 126 single family TDR relationships totaling \$67.5 million at December 31, 2012. The increase in the number of impaired loan relationships at December 31, 2013 from 2012 was primarily due to an increase in the number of single

family impaired loans. At December 31, 2013, there were 153 single family impaired relationships totaling \$68.6 million that were performing per their current contractual terms. Additionally, the impaired loan balance included \$17.8 million of loans insured by the FHA or guaranteed by the VA. The average recorded investment in these loans for the year ended December 31, 2013 was \$122.8

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million compared to \$148.6 million for the year ended December 31, 2012. Impaired loans of \$38.6 million and \$70.4 million had a valuation allowance of \$2.6 million and \$6.4 million at December 31, 2013 and 2012, respectively.

The following table presents the allowance for credit losses, including reserves for unfunded commitments, by loan class.

(in thousands)	At December 31, 2013			2012			2011		
	Amount	Percent of allowance to total allowance	Loan category as a % of total loans	Amount	Percent of allowance to total allowance	Loan category as a % of total loans	Amount	Percent of allowance to total allowance	Loan category as a % of total loans
Consumer loans									
Single family	\$11,990	49.8	% 47.7	% \$13,388	48.2	% 50.3	% \$10,671	24.9	% 36.9
Home equity	3,987	16.6	7.1	4,648	16.8	10.2	4,623	10.8	11.8
	15,977	66.4	54.8	18,036	65.0	60.5	15,294	35.7	48.7
Commercial loans									
Commercial real estate	4,012	16.6	25.2	5,312	19.2	27.0	4,321	10.1	29.8
Multifamily	942	3.9	4.2	622	2.2	1.3	335	0.8	4.2
Construction/land development	1,414	5.9	6.9	1,580	5.7	5.3	21,237	49.6	12.9
Commercial business	1,744	7.2	8.9	2,201	7.9	5.9	1,613	3.8	4.4
	8,112	33.6	45.2	9,715	35.0	39.5	27,506	64.3	51.3
Total allowance for credit losses	\$24,089	100.0	% 100.0	% \$27,751	100.0	% 100.0	% \$42,800	100.0	% 100.0

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The following table presents activity in our allowance for credit losses, which includes reserves for unfunded commitments.

(in thousands)	Year Ended December 31,		
	2013	2012	2011
Allowance at the beginning of period	\$27,751	\$42,800	\$64,566
Provision for loan losses	900	11,500	3,300
Recoveries:			
Consumer			
Single family	536	657	208
Home equity	583	631	132
Commercial	1,119	1,288	340
Commercial real estate	134	259	—
Multifamily residential	—	10	—
Construction/land development	767	1,042	6,274
Commercial business	272	727	264
Total recoveries	1,173	2,038	6,538
Charge-offs:			
Consumer			
Single family	2,967	5,939	8,347
Home equity	1,960	4,264	5,062
Commercial	4,927	10,203	13,409
Commercial real estate	1,448	4,253	817
Construction/land development	458	14,861	16,890
Commercial business	21	558	828
Total charge-offs	1,927	19,672	18,535
(Charge-offs), net of recoveries	6,854	29,875	31,944
Balance at end of period	(4,562)	) (26,549	) (25,066
	\$24,089	) \$27,751	) \$42,800
Net charge-offs to average loans receivable, net	0.30	% 2.04	% 1.70
		%	%

We manage asset quality and control credit risk by diversifying our loan portfolio and by applying policies designed to promote sound underwriting and loan monitoring practices. The Credit Administration department is charged with monitoring asset quality, establishing credit policies and procedures, and enforcing the consistent application of these policies and procedures across the organization. For further discussion related to credit quality, see Note 6, Loans and Credit Quality to the financial statements of this Form 10-K.

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The following tables contain the amount of TDRs by loan type on accrual and nonaccrual status.

(in thousands)	At December 31, 2013					Total number of relationships
	Accrual	Number of accrual relationships	Nonaccrual	Number of nonaccrual relationships	Total	
Consumer:						
Single family ⁽¹⁾	\$70,304	160	\$4,017	9	\$74,321	169
Home equity	2,558	23	86	2	2,644	25
	72,862	183	4,103	11	76,965	194
Commercial:						
Commercial real estate	19,620	2	628	1	20,248	3
Multifamily residential	3,163	2	—	—	3,163	2
Construction/land development	6,148	4	—	—	6,148	4
Commercial business	112	1	—	—	112	1
	29,043	9	628	1	29,671	10
	\$101,905	192	\$4,731	12	\$106,636	204

(1) Includes \$17.8 million of loans insured by the FHA or guaranteed by the VA.

(in thousands)	At December 31, 2012					Total number of relationships
	Accrual	Number of accrual relationships	Nonaccrual	Number of nonaccrual relationships	Total	
Consumer:						
Single family	\$67,483	120	\$3,931	\$6	\$71,414	126
Home equity	2,288	21	465	3	2,753	24
	69,771	141	4,396	9	74,167	150
Commercial:						
Commercial real estate	21,071	2	770	1	21,841	3
Multifamily residential	3,221	2	—	—	3,221	2
Construction/land development	6,365	4	5,042	2	11,407	6
Commercial business	147	1	—	—	147	1
	30,804	9	5,812	3	36,616	12
	\$100,575	150	\$10,208	12	\$110,783	162

(1) Includes \$13.1 million of loans insured by the FHA or guaranteed by the VA.

The Company had 204 loan relationships classified as TDRs totaling \$106.6 million at December 31, 2013 with related unfunded commitments of \$47 thousand. The Company had 162 loan relationships classified as TDRs totaling \$110.8 million at December 31, 2012 with related unfunded commitments of \$25 thousand. The increase in the number of TDR loan relationships at December 31, 2013 from 2012 was primarily due to an increase in the number of single family loan TDRs. TDR loans within the loans held for investment portfolio and the related reserves are included in the impaired loan tables above. TDR loans held for sale totaled \$1.9 million comprised of five relationships, and \$1.4 million comprised of six relationships, as of December 31, 2013 and 2012, respectively, and

were predominantly comprised of loans repurchased from Ginnie Mae and cured by modifying interest rate terms.

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The following table presents nonperforming assets, contractually past due assets, and accruing and nonaccrual restructured loans.

(in thousands)	At December 31,					
	2013	2012	2011	2010	2009	
Loans accounted for on a nonaccrual basis: ⁽¹⁾						
Consumer						
Single family	\$8,861	\$13,304	\$12,104	\$13,938	\$48,400	
Home equity	1,846	2,970	2,464	2,535	2,187	
	10,707	16,274	14,568	16,473	50,587	
Commercial						
Commercial real estate	12,257	6,403	10,184	20,259	15,981	
Multifamily residential	—	—	2,394	8,167	8,489	
Construction/land development	—	5,042	48,387	65,952	295,966	
Commercial business	2,743	2,173	951	2,359	3,195	
	15,000	13,618	61,916	96,737	323,631	
Total loans on nonaccrual	25,707	29,892	76,484	113,210	374,218	
Other real estate owned	12,911	23,941	38,572	170,455	107,782	
Total nonperforming assets	\$38,618	\$53,833	\$115,056	\$283,665	\$482,000	
Loans 90 days or more past due and accruing ⁽²⁾	\$46,811	\$40,658	\$35,757	\$43,503	\$11,439	
Accruing TDR loans ⁽³⁾	101,905	100,575	\$104,931	31,806	42,746	
Nonaccrual TDR loans ⁽³⁾	4,731	10,208	23,540	25,063	19,069	
Total TDR loans	\$106,636	\$110,783	\$128,471	\$56,869	\$61,815	
Allowance for loan losses as a percent of nonaccrual loans	93.00	% 92.20	% 55.81	% 56.69	% 29.25	%
Nonaccrual loans as a percentage of total loans	1.36	% 2.24	% 5.69	% 7.06	% 18.04	%
Nonperforming assets as a percentage of total assets	1.26	% 2.05	% 5.08	% 11.41	% 15.02	%

(1) If interest on nonaccrual loans under the original terms had been recognized, such income is estimated to have been \$686 thousand, \$1.1 million and \$4.9 million for the years ended December 31, 2013, 2012 and 2011.

(2) FHA-insured and VA-guaranteed single family loans that are 90 days or more past due are maintained on an accrual status if they have been determined to have little or no risk of loss.

(3) At December 31, 2013, TDRs (performing and nonperforming) were comprised of 204 loan relationships totaling \$106.6 million.

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The following tables present delinquent loans and OREO by loan type.

(in thousands)	At December 31, 2013					
	30-59 Days Past Due	60-89 Days Past Due	Nonaccrual	90 Days or More Past Due and Accruing ⁽¹⁾	Total Past Due Loans	Other Real Estate Owned
Consumer loans						
Single family	\$6,466	\$4,901	\$8,861	\$ 46,811	\$67,039	\$5,246
Home equity	375	75	1,846	—	2,296	—
	6,841	4,976	10,707	46,811	69,335	5,246
Commercial loans						
Commercial real estate	—	—	12,257	—	12,257	1,688
Construction/land development	—	—	—	—	—	5,977
Commercial business	—	—	2,743	—	2,743	—
	—	—	15,000	—	15,000	7,665
Total	\$6,841	\$4,976	\$25,707	\$ 46,811	\$84,335	\$12,911

(in thousands)	At December 31, 2012					
	30-59 Days Past Due	60-89 Days Past Due	Nonaccrual	90 Days or More Past Due and Accruing ⁽¹⁾	Total Past Due Loans	Other Real Estate Owned
Consumer loans						
Single family	\$11,916	\$4,732	\$13,304	\$ 40,658	\$70,610	\$4,071
Home equity	787	242	2,970	—	3,999	—
	12,703	4,974	16,274	40,658	74,609	4,071
Commercial loans						
Commercial real estate	—	—	6,403	—	6,403	10,283
Construction/land development	—	—	5,042	—	5,042	9,587
Commercial business	—	—	2,173	—	2,173	—
	—	—	13,618	—	13,618	19,870
Total	\$12,703	\$4,974	\$29,892	\$ 40,658	\$88,227	\$23,941

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(in thousands)	At December 31, 2011					
	30-59 Days Past Due	60-89 Days Past Due	Nonaccrual	90 Days or More Past Due and Accruing ⁽¹⁾	Total Past Due Loans	Other Real Estate Owned
Consumer loans						
Single family	\$7,694	\$8,552	\$12,104	\$35,757	\$64,107	\$6,600
Home equity	957	500	2,464	—	3,921	—
	8,651	9,052	14,568	35,757	68,028	6,600
Commercial loans						
Commercial real estate	—	—	10,184	—	10,184	2,055
Multifamily	—	—	2,394	—	2,394	—
Construction/land development	9,916	—	48,387	—	58,303	29,917
Commercial business	—	—	951	—	951	—
	9,916	—	61,916	—	71,832	31,972
Total	\$18,567	\$9,052	\$76,484	\$35,757	\$139,860	\$38,572

(1) FHA-insured and VA-guaranteed single family loans that are 90 days or more past due are maintained on accrual status as they have little to no risk of loss. All single family loans in this category are Ginnie Mae loans.

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The following table presents nonperforming assets by loan type by region at December 31, 2013.

(in thousands)	Washington Puget Sound King ⁽¹⁾	Snohomish ⁽³⁾	Pierce ⁽¹⁾	Thurston ⁽³⁾	Vancouver & Other ⁽²⁾⁽³⁾	Spokane ⁽²⁾⁽³⁾⁽¹⁾	Kitsap/Jefferson/Clallam
Loans on nonaccrual status:							
Consumer							
Single family	\$3,032	\$1,469	\$1,821	\$213	\$292	\$802	\$ —
Home equity	596	117	386	22	49	77	—
	3,628	1,586	2,207	235	341	879	—
Commercial							
Commercial real estate	7,076	2,274	—	—	—	208	—
Commercial business	2,520	—	—	—	—	223	—
	9,596	2,274	—	—	—	431	—
Total loans on nonaccrual status	\$13,224	\$3,860	\$2,207	\$235	\$341	\$1,310	\$ —
Other real estate owned:							
Consumer							
Single family	\$923	\$105	\$577	\$—	\$—	\$—	\$ —
	923	105	577	—	—	—	—
Commercial							
Commercial real estate	—	—	—	—	—	—	958
Construction/land development	—	—	325	6,219	—	—	—
	—	—	325	6,219	—	—	958
Total other real estate owned	\$923	\$105	\$902	\$6,219	\$—	\$—	\$ 958
Total nonperforming assets	\$14,147	\$3,965	\$3,109	\$6,454	\$341	\$1,310	\$ 958

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(in thousands)	Idaho Boise ⁽²⁾	Oregon Portland ⁽²⁾⁽³⁾ Bend ⁽²⁾⁽³⁾	Salem ⁽²⁾	Hawaii	Total
Loans on nonaccrual status:					
Single family	\$—	\$271	\$301	\$660	\$8,861
Home equity	—	251	—	85	263
	—	522	301	85	923
Commercial real estate	—	2,699	—	—	12,257
Commercial business	—	—	—	—	2,743
	—	2,699	—	—	15,000
Total loans on nonaccrual status	\$—	\$3,221	\$301	\$85	\$923
\$25,707					
Other real estate owned:					
Consumer					
Single family	\$—	\$1,334	—	\$1,410	\$897
	—	1,334	—	1,410	897
Commercial					
Commercial real estate	—	—	—	—	—
Construction/land development	—	163	—	—	—
	—	163	—	—	—
Total other real estate owned	\$—	\$1,497	\$—	\$1,410	\$897
Total nonperforming assets	\$—	\$4,718	\$301	\$1,495	\$1,820
\$38,618					

(1) Refers to a specific county.

(2) Refers to a specific city.

(3) Also includes surrounding counties.

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The following table presents nonperforming assets by loan type by region at December 31, 2012.

(in thousands)	Washington Puget Sound King ⁽¹⁾	Snohomish ⁽³⁾	Pierce ⁽¹⁾	Thurston ⁽³⁾	Vancouver & Other ⁽²⁾⁽³⁾	Spokane ⁽²⁾⁽³⁾⁽¹⁾	Kitsap/Jefferson/Clallam
Loans on nonaccrual status:							
Consumer							
Single family	\$4,344	\$2,699	\$1,361	\$187	\$—	\$715	\$—
Home equity	1,659	97	401	14	124	81	28
	6,003	2,796	1,762	201	124	796	28
Commercial							
Commercial real estate	1,131	4,502	—	—	—	—	—
Construction/land development	—	—	311	—	1,112	3,619	—
Commercial business	2,173	—	—	—	—	—	—
	3,304	4,502	311	—	1,112	3,619	—
Total loans on nonaccrual status	\$9,307	\$7,298	\$2,073	\$201	\$1,236	\$4,415	\$28
Other real estate owned:							
Consumer							
Single family	\$1,179	\$920	\$246	\$—	\$—	\$425	\$—
	1,179	920	246	—	—	425	—
Commercial							
Commercial real estate	1,207	1,636	6,957	—	—	—	—
Construction/land development	—	—	7,172	2,415	—	—	—
	1,207	1,636	14,129	2,415	—	—	—
Total other real estate owned	\$2,386	\$2,556	\$14,375	\$2,415	\$—	\$425	\$—
Total nonperforming assets	\$11,693	\$9,854	\$16,448	\$2,616	\$1,236	\$4,840	\$28

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(in thousands)	Idaho Boise ⁽²⁾	Oregon Portland ⁽²⁾⁽³⁾ Bend ⁽²⁾⁽³⁾	Salem ⁽²⁾	Hawaii	Total	
Loans on nonaccrual status:						
Single family	\$205	\$2,458	\$—	\$—	\$1,335	\$13,304
Home equity	—	221	5	94	246	2,970
	205	2,679	5	94	1,581	16,274
Commercial real estate	—	—	770	—	—	6,403
Construction/land development	—	—	—	—	—	5,042
Commercial business	—	—	—	—	—	2,173
	—	—	770	—	—	13,618
Total loans on nonaccrual status	\$205	\$2,679	\$775	\$94	\$1,581	\$29,892
Other real estate owned:						
Consumer						
Single family	\$—	\$148	\$—	\$1,153	\$—	\$4,071
	—	148	—	1,153	—	4,071
Commercial						
Commercial real estate	—	—	483	—	—	10,283
Construction/land development	—	—	—	—	—	9,587
	—	—	483	—	—	19,870
Total other real estate owned	\$—	\$148	\$483	\$1,153	\$—	\$23,941
Total nonperforming assets	\$205	\$2,827	\$1,258	\$1,247	\$1,581	\$53,833

(1) Refers to a specific county.

(2) Refers to a specific city.

(3) Also includes surrounding counties.

The following tables present the single family loan held for investment portfolio by original FICO score.

At December 31, 2013

Greater Than	Less Than or Equal To	Percentage	(1)
N/A	(2) N/A	(2) 3.9%	
<	500	0.1%	
500	549	0.1%	
550	599	0.9%	
600	649	3.3%	
650	699	13.8%	
700	749	25.2%	
750	>	52.7%	
	TOTAL	100.0%	

(1) Percentages based on aggregate loan amounts.

(2) Information is not available.

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At December 31, 2012

Greater Than	Less Than or Equal To	Percentage	(1)
N/A	(2) N/A	(2) 5.2%	
<	500	0.1%	
500	549	0.1%	
550	599	1.2%	
600	649	4.6%	
650	699	16.2%	
700	749	26.9%	
750	>	45.7%	
	TOTAL	100.0%	

(1) Percentages based on aggregate loan amounts.

(2) Information is not available.

Our underwriting standards for single family and home equity loans require evaluating and understanding a borrower's credit, collateral and ability to repay the loan. Credit is determined based on how well a borrower manages their current and prior debts, documented by a credit report that provides credit scores and the borrower's current and past information about their credit history. Collateral is based on the type and use of property, occupancy and market value, largely determined by property appraisals. A borrower's ability to repay the loan is based on several factors, including employment, income, current debt, assets and level of equity in the property. We also consider loan-to-property value and debt-to-income ratios, loan amount and lien position in assessing whether to originate a loan. Single family and home equity borrowers are particularly susceptible to downturns in economic trends that negatively affect housing prices and demand and levels of unemployment.

For commercial, multifamily and construction lending, we consider the same factors with regard to the borrower and the guarantors. In addition, we evaluate liquidity, net worth, leverage, other outstanding indebtedness of the borrower, an analysis of cash expected to flow through the borrower (including the outflow to other lenders) and prior experience with the borrower. We use this information to assess financial capacity, profitability and experience. Ultimate repayment of these loans is sensitive to interest rate changes, general economic conditions, liquidity and availability of long-term financing.

Liquidity Risk and Capital Resources

Liquidity risk management is primarily intended to ensure we are able to maintain cash flows adequate to fund operations and meet our obligations, including demands from depositors, draws on lines of credit and paying any creditors, on a timely and cost-effective basis in various market conditions. Our liquidity profile is influenced by changes in market conditions, the composition of the balance sheet and risk tolerance levels. HomeStreet, Inc., HomeStreet Capital ("HSC") and the Bank have established liquidity guidelines and operating plans that detail the sources and uses of cash and liquidity.

HomeStreet, Inc., HomeStreet Capital and the Bank have different funding needs and sources of liquidity and separate regulatory capital requirements.

HomeStreet, Inc.

The main source of liquidity for HomeStreet, Inc. is proceeds from dividends from the Bank and HomeStreet Capital. In the past, we have raised longer-term funds through the issuance of senior debt and TruPS. Historically, the main cash outflows were distributions to shareholders, interest and principal payments to creditors and operating expenses.

HomeStreet, Inc.'s ability to pay dividends to shareholders depends substantially on dividends received from the Bank.

On February 15, 2012, we completed our initial public offering of 8,723,632 shares of common stock for an initial offering price of \$11.00 per share (after giving effect to the 2-for-1 forward stock split effective March 6, 2012 and the 2-for-1 forward stock split effective November 5, 2012). The net increase in HomeStreet's capital was \$86.4 million, which included net cash proceeds of \$87.7 million received in 2012, less \$1.4 million of issuance costs paid in 2011. The Company contributed \$55.0 million to the Bank on February 24, 2012 and an additional \$10.0 million on April 26, 2012, leaving approximately \$22.7 million of net proceeds at the Company to be used for general corporate purposes.

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HomeStreet Capital

HomeStreet Capital generates positive cash flow from its servicing fee income on the DUS portfolio, net of its costs to service the portfolio. Partially offsetting this are HomeStreet Capital's costs to purchase the servicing rights on new production from the Bank. Liquidity management and reporting requirements for DUS lenders such as HomeStreet Capital are set by Fannie Mae. HomeStreet Capital's liquidity management therefore consists of meeting Fannie Mae requirements and its own operational needs.

HomeStreet Bank

The Bank's primary short-term sources of funds include deposits, advances from the FHLB, repayments and prepayments of loans, proceeds from the sale of loans and investment securities and interest from our loans and investment securities. We have also raised short-term funds through the sale of securities under agreements to repurchase. While scheduled principal repayments on loans are a relatively predictable source of funds, deposit inflows and outflows and loan prepayments are greatly influenced by interest rates, economic conditions and competition. The primary liquidity ratio is defined as net cash, short-term investments and other marketable assets as a percent of net deposits and short-term borrowings. At December 31, 2013 our primary liquidity ratio was 26.9%, compared with 43.9% at December 31, 2012.

At December 31, 2013 and 2012, the Bank had borrowing capacity of \$228.5 million and \$55.7 million from the FHLB, and \$332.7 million and \$124.3 million from the FRBSF, respectively.

Our lending agreement with the FHLB permits it to refuse to make advances during periods in which an "event of default" (as defined in that agreement) exists. An event of default occurs when the FHLB gives notice to the Bank of an intention to take any of a list of permissible actions following the occurrence of specified events or conditions affecting the Bank. The FHLB has not declared a default under this agreement, and has not notified the Bank that future advances would not be made available, although it has required the Bank to deliver physical possession of certain negotiable instruments and related documentation as collateral for borrowings under that agreement.

In recognition of the significant improvement in the Bank's financial condition, results of operations and risk profile, the Federal Reserve Bank on July 10, 2012 granted full access to all Federal Reserve Bank lending and depository services.

Cash Flows

For the years ended December 31, 2013, 2012 and 2011 cash and cash equivalents increased \$8.6 million, decreased \$238.0 million, and increased \$190.7 million, respectively. The following discussion highlights the major activities and transactions that affected HomeStreet's cash flows during 2013, 2012 and 2011.

Cash flows from operating activities

The Company's operating assets and liabilities are used to support our lending activities, including the origination and sale of mortgage loans. For the year ended December 31, 2013, net cash of \$304.0 million was provided by operating activities, as proceeds from the sale of loans held for sale exceeded cash used to fund loans held for sale production. During 2013, the Company transferred \$93.6 million of loans from loans held for investment to loans held for sale. We believe that cash flows from operations, available cash balances and our ability to generate cash through short-term debt are sufficient to fund our operating liquidity needs. For the year ended December 31, 2012, net cash of \$391.9 million was used by operating activities, as higher mortgage production volumes during 2012 resulted in higher average balances of loans held for sale. Cash used to fund loans held for sale production was largely offset by

proceeds from the sale of such loans. For the year ended December 31, 2011, net cash of \$89.7 million was provided by operating activities, resulting from the decision to accelerate the settlement of single family loans held for sale.

Cash flows from investing activities

The Company's investing activities primarily include available-for-sale securities and loans originated and held for investment. For the year ended December 31, 2013, net cash of \$459.9 million was used in investing activities. We used cash of \$447.9 million in net originations and principal repayments of loans held for investment during 2013, as a result of increased originations of mortgages that exceed conventional conforming loan limits. Net purchases in our investment securities portfolio were \$190.0 million during 2013. Additionally, cash of \$24.0 million was provided in connection with the purchases of YNB, Fortune Bank and two AmericanWest Bank branches. For the year ended December 31, 2012, net cash of \$102.9 million was used by investing activities, as we used the proceeds from our stock issuance to purchase available-for-sale securities. Net

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purchases in our investment securities portfolio were \$119.0 million during 2012. Additionally, we realized net proceeds of \$49.6 million from the sale of OREO properties during 2012. For the year ended December 31, 2011, net cash of \$331.9 million was provided by investing activities mainly in connection with net proceeds from our investment loan portfolio and the sale of OREO properties in 2011. Net proceeds from our investment loan portfolio were \$196.1 million during 2011. Additionally, we realized net proceeds of \$144.6 million from the sale of OREO properties during 2011.

Cash flows from financing activities

The Company's financing activities are primarily related to customer deposits and net proceeds from the FHLB. For the year ended December 31, 2013, net cash of \$164.5 million was provided by financing activities, as we increased our lower cost short-term advances from the FHLB. For the year ended December 31, 2012, net cash of \$256.7 million was provided by financing activities. We had net proceeds of \$200.2 million from FHLB advances as the Company prepaid higher cost long-term FHLB advances, replacing these borrowings with lower cost short-term advances from the FHLB. Additionally, the Company had net proceeds of \$88.2 million from the issuance of common stock through our initial public offering and option exercises, which we used to invest in investment securities. For the year ended December 31, 2011, net cash of \$230.9 million was used in financing activities, as we reduced our FHLB advances as part of our balance sheet restructuring activities.

Capital Management

Federally insured depository institutions, such as the Bank, are required to maintain a minimum level of regulatory capital. The FDIC regulations recognize two types, or tiers, of capital: "core capital," or Tier 1 capital, and "supplementary capital," or Tier 2 capital. The FDIC currently measures a bank's capital using (1) total risk-based capital ratio, (2) Tier 1 risk-based capital ratio and (3) Tier 1 leverage ratio. In order to qualify as "well capitalized," a bank must have a total risk-based capital ratio of at least 10.0%, a Tier 1 risk-based capital ratio of at least 6.0% and a Tier 1 leverage ratio of at least 5.0%. In order to be deemed "adequately capitalized," a bank generally must have a total risk-based capital ratio of at least 8.0%, a Tier 1 risk-based capital ratio of at least 4.0% and a Tier 1 leverage ratio of at least 4.0%. The FDIC retains the right to require a depository institution to maintain a higher capital level based on its particular risk profile.

As of December 31, 2013, the Bank had a total risk-based capital ratio, Tier 1 risk-based capital ratio and Tier 1 leverage capital ratio of 15.46%, 14.28% and 9.96%, respectively, compared with 19.31%, 18.05% and 11.78%, as of December 31, 2012. At December 31, 2013 the Bank's capital ratios continued to meet the regulatory capital category of "well capitalized" as defined by the FDIC's prompt corrective action rules. The decline in the Bank's capital ratios from December 31, 2012 was primarily attributable to the fourth quarter acquisitions of Fortune Bank, Yakima National Bank and two branches from AmericanWest Bank, which created \$13.6 million of intangible assets which are not included in the calculation of our capital for regulatory purposes and which resulted in an increase in average and risk-weighted assets, as well as the equity impact of lower net income in 2013.

The following table presents the Bank's capital amounts and ratios.

	At December 31, 2013				To Be Categorized As	
	Actual		For Minimum Capital Adequacy Purposes		"Well Capitalized" Under Prompt Corrective Action Provisions	
(in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio

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Tier 1 leverage capital (to average assets)	\$291,673	9.96	%	\$117,182	4.0	%	\$146,478	5.0	%
Tier 1 risk-based capital (to risk-weighted assets)	291,673	14.28	%	81,708	4.0	%	122,562	6.0	%
Total risk-based capital (to risk-weighted assets)	315,762	15.46	%	163,415	8.0	%	204,269	10.0	%

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At December 31, 2012

(in thousands)	Actual		For Minimum Capital Adequacy Purposes		To Be Categorized As “Well Capitalized” Under Prompt Corrective Action Provisions		
	Amount	Ratio	Amount	Ratio	Amount	Ratio	
Tier 1 leverage capital (to average assets)	\$286,963	11.78	% \$97,466	4.0	% \$121,833	5.0	%
Tier 1 risk-based capital (to risk-weighted assets)	286,963	18.05	% 63,596	4.0	% 95,394	6.0	%
Total risk-based capital (to risk-weighted assets)	306,934	19.31	% 127,192	8.0	% 158,991	10.0	%

At December 31, 2011

(in thousands)	Actual		For Minimum Capital Adequacy Purposes		To Be Categorized As “Well Capitalized” Under Prompt Corrective Action Provisions		
	Amount	Ratio	Amount	Ratio	Amount	Ratio	
Tier 1 leverage capital (to average assets)	\$135,383	6.04	% \$89,705	4.0	% \$112,132	5.0	%
Tier 1 risk-based capital (to risk-weighted assets)	135,383	9.88	% 54,814	4.0	% 82,220	6.0	%
Total risk-based capital (to risk-weighted assets)	152,829	11.15	% 109,627	8.0	% 137,034	10.0	%

New Capital Regulations

In July 2013, federal banking regulators (including the FDIC and the FRB) adopted new capital rules (the “Rules”). The Rules apply to both depository institutions (such as the Bank) and their holding companies (such as the Company). The Rules reflect, in part, certain standards initially adopted by the Basel Committee on Banking Supervision in December 2010 (which standards are commonly referred to as “Basel III”) as well as requirements contemplated by the Dodd-Frank Act.

Under the Rules, both the Company and the Bank will be required to meet certain minimum capital requirements. The Rules implement a new capital ratio of common equity Tier 1 capital to risk-based assets. Common equity Tier 1 capital generally consists of retained earnings and common stock instruments (subject to certain adjustments), as well as accumulated other comprehensive income (“AOCI”) except to the extent that the Company and the Bank exercise a one-time irrevocable option to exclude certain components of AOCI. Both the Company and the Bank expect to elect this one-time option to exclude certain components of AOCI. Both the Company and the Bank are required to have a common equity Tier 1 capital ratio of 4.5%. In addition, both the Company and the Bank are required to have a Tier 1 leverage ratio of 4.0%, a Tier 1 risk-based ratio of 6.0% and a total risk-based ratio of 8.0%. In addition to the preceding requirements, both the Company and the Bank are required to establish a “conservation buffer”, consisting of common equity Tier 1 capital, which is at least 2.5% above each of the preceding common equity Tier 1 capital ratios, the Tier 1 risk-based ratio and the total risk based ratio. An institution that does not meet the conservation buffer will be subject to restrictions on certain activities including payment of dividends, stock repurchases and discretionary

bonuses to executive officers. The prompt corrective action rules, which apply to the Bank but not the Company, are modified to include a common equity Tier 1 risk-based ratio and to increase certain other capital requirements for the various thresholds. For example, the requirements for the Bank to be considered well-capitalized under the Rules are a 5.0% Tier 1 leverage ratio, a 6.5% common equity Tier 1 risk-based ratio, an 8.0% Tier 1 risk-based capital ratio and a 10.0% total risk-based capital ratio. To be adequately capitalized, those ratios are 4.0%, 4.5%, 6.0% and 8.0%, respectively.

The Rules modify the manner in which certain capital elements are determined, including but not limited to, requiring certain deductions related to mortgage servicing rights and deferred tax assets. When the federal banking regulators initially proposed new capital rules in 2012, the rules would have phased out trust preferred securities as a component of Tier 1 capital. As finally adopted, however, the Rules permit holding companies with less than 815 billion in total assets as of December 31, 2009

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(which includes the Company) to continue to include trust preferred securities issued prior to May 19, 2010 in Tier 1 capital, generally up to 25% of other Tier 1 capital.

The Rules make changes in the methods of calculating certain risk-based assets, which in turn affects the calculation of risk-based ratios. Higher or more sensitive risk weights are assigned to various categories of assets, among which are commercial real estate, credit facilities that finance the acquisition, development or construction of real property, certain exposures or credit that are 90 days past due or are nonaccrual, foreign exposures, certain corporate exposures, securitization exposures, equity exposures and in certain cases mortgage servicing rights and deferred tax assets.

The Company and the Bank are generally required to begin compliance with the Rules on January 1, 2015. The conservation buffer will be phased in beginning in 2016 and will take full effect on January 1, 2019. Certain calculations under the Rules will also have phase-in periods. We believe that the current capital levels of the Company and the Bank are in compliance with the standards under the Rules including the conservation buffer.

Impact of Inflation

The consolidated financial statements presented in this Form 10-K have been prepared in accordance with U.S. GAAP, which requires the measurement of financial position and operating results in terms of historical dollar amounts or market value without considering the changes in the relative purchasing power of money over time due to inflation. The impact of inflation is reflected in the cost of our operations as incurred. Unlike industrial companies, nearly all of our assets and liabilities are monetary in nature. As a result, interest rates have a greater impact on our performance than do the effects of general levels of inflation.

Operational Risk Management

Operational risk is defined as the risk to current or anticipated earnings or capital arising from inadequate or failed internal processes or systems, misconduct or errors, and adverse external events.

Each line of business has primary responsibility for identifying, monitoring and controlling its operational risks. In addition, centralized departments such as our credit administration, enterprise risk management, compliance and regulatory affairs, legal, security, information security, finance and human resources provide support to the business lines as they develop and implement risk management practices specific to their needs. Our internal audit department provides independent feedback on the strength of operational risk controls and compliance with Company policies and procedures. Additionally, we maintain mature change management, business resumption and data and customer information security processes. We also maintain a code of conduct with periodic training, setting a “tone from the top” that articulates a strong focus on compliance and ethical standards and a zero tolerance approach to unethical or fraudulent behavior.

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Compliance/Regulatory Risk Management

Compliance risk is the risk to current or anticipated earnings or capital arising from violations of, or nonconformance with, laws, rules, regulations, prescribed practices, internal policy and procedures or ethical standards.

As a regulated financial institution with a significant mortgage banking operation, we have significant compliance and regulatory risk. Historically, we have maintained a strong compliance culture and compliance management processes as evidenced by minimal compliance issues. Each business unit is responsible for compliance with laws and regulations and has identified an individual to participate on our compliance committee, which is chaired by the Compliance Officer. The Compliance Officer monitors all new regulations and changes to existing regulations and the new requirements are discussed at the management compliance committee to determine impact to the business units and to assign responsibilities and timelines for implementation.

Management has established a tracking process for monitoring the status of pending regulations and for implementing the regulatory requirements as they are published and become effective.

Strategic Risk Management

Strategic risk is the risk to current or anticipated earnings, capital or enterprise value arising from adverse business decisions, improper implementation of decisions or lack of responsiveness to industry changes.

Strategic risk is managed by the Board and senior management through development of strategic plans, successful implementation of business initiatives and reporting to the Board and its committees.

Reputation Risk Management

Reputation risk is defined as the risk to current or anticipated earnings, capital or enterprise value arising from negative public opinion.

We believe that we have an excellent reputation in the community primarily due to our longevity and significant outreach to the communities we serve. The Bank has earned “Outstanding” ratings on every one of its Bank Community Reinvestment Act (CRA) examinations since 1986.

Accounting Developments

See Financial Statements and Supplementary Data—Note 1, Summary of Significant Accounting Policies, for a discussion of accounting developments.

ITEM 7A QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risk Management

Market risk is defined as the sensitivity of income, fair value measurements and capital to changes in interest rates, foreign currency exchange rates, commodity prices and other relevant market rates or prices. The primary market risks that we are exposed to are price and interest rate risks. Price risk is defined as the risk to current or anticipated earnings or capital arising from changes in the value of either assets or liabilities that are entered into as part of distributing or managing risk. Interest rate risk is defined as risk to current or anticipated earnings or capital arising from movements in interest rates.

For the Company, price and interest rate risks arise from the financial instruments and positions we hold. This includes loans, mortgage servicing rights, investment securities, deposits, borrowings, long-term debt and derivative financial instruments. Due to the nature of our operations, we are not subject to foreign currency exchange or commodity price risk. Our real estate loan portfolio is subject to risks associated with the local economies of our various markets and, in particular, the regional economy of the Pacific Northwest.

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Our price and interest rate risks are managed by the Bank's Asset/Liability Management Committee ("ALCO"), a management committee that identifies and manages the sensitivity of earnings or capital to changing interest rates to achieve our overall financial objectives. ALCO is a management-level committee whose members include the Chief Investment Officer, acting as the chair, the Chief Executive Officer and other members of management. The committee meets monthly and is responsible for:

- understanding the nature and level of the Company's interest rate risk and interest rate sensitivity;
- assessing how that risk fits within our overall business strategies;
- ensuring an appropriate level of rigor and sophistication in the risk management process for the overall level of risk;
- complying with and reviewing the asset/liability management policy;
- formulating and implementing strategies to improve balance sheet mix and earnings.

The Finance Committee of the Board provides oversight of the asset/liability management process, reviews the results of interest rate risk analysis and approves policies.

The spread between the yield on interest-earning assets and the cost of interest-bearing liabilities and the relative dollar amounts of these assets and liabilities are the principal items affecting net interest income. Changes in net interest spread (interest rate risk) are influenced to a significant degree by the repricing characteristics of assets and liabilities (timing risk), the relationship between various rates (basis risk), customer options (option risk) and changes in the shape of the yield curve (time-sensitive risk). We continue to manage and monitor the available-for-sale securities portfolio while maintaining a balance between risk and return. The Company's funding strategy is to grow core deposits while we efficiently supplement using wholesale borrowings.

We estimate the sensitivity of our net interest income to changes in market interest rates using an interest rate simulation model that includes assumptions related to the level of balance sheet growth, deposit repricing characteristics and the rate of prepayments for multiple interest rate change scenarios. Interest rate sensitivity depends on certain repricing characteristics in our interest-earnings assets and interest-bearing liabilities, including the maturity structure of assets and liabilities and their repricing characteristics during the periods of changes in market interest rates. Effective interest rate sensitivity management seeks to ensure both assets and liabilities respond to changes in interest rates within an acceptable timeframe, minimizing the impact of interest rate changes on net interest income and capital. Interest rate sensitivity is measured as the difference between the volume of assets and liabilities, at a point in time, that are subject to repricing at various time horizons, known as interest sensitivity gaps.

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The following table presents sensitivity gaps for these different intervals.

(dollars in thousands)	December 31, 2013							Non-Rate-Sensitive	Total			
	3 Mos. or Less	More Than 3 Mos. to 6 Mos.	More Than 6 Mos. to 12 Mos.	More Than 12 Mos. to 3 Yrs.	More Than 3 Yrs. to 5 Yrs.	More Than 5 Yrs.						
Interest-earning assets:												
Cash & cash equivalents	\$33,908	\$—	\$—	\$—	\$—	\$—	\$—	\$—	\$33,908			
FHLB Stock	—	—	—	—	—	35,288	—	—	35,288			
Investment securities ⁽¹⁾	14,112	15,472	31,307	114,058	62,472	261,395	—	—	498,816			
Mortgage loans held for sale	279,941	—	—	—	—	—	—	—	279,941			
Loans held for investment ⁽¹⁾	473,350	160,518	270,969	494,503	243,174	253,207	—	—	1,895,711			
Total interest-earning assets	801,311	175,990	302,276	608,561	305,646	549,890	—	—	2,743,744			
Non-interest-earning assets												
Total assets	\$801,311	\$175,990	\$302,276	\$608,561	\$305,646	\$549,890	\$322,380	\$—	\$3,066,811			
Interest-bearing liabilities:												
NOW accounts ⁽²⁾	\$297,965	\$—	\$—	\$—	\$—	\$—	\$—	\$—	\$297,965			
Statement savings accounts ⁽²⁾	156,181	—	—	—	—	—	—	—	156,181			
Money market accounts ⁽²⁾	919,322	—	—	—	—	—	—	—	919,322			
Certificates of deposit	174,399	102,600	124,093	94,375	18,788	146	—	—	514,491			
FHLB advances	431,000	—	—	—	—	15,590	—	—	446,590			
Long-term debt ⁽³⁾	61,857	—	—	—	2,954	—	—	—	64,811			
Total interest-bearing liabilities	2,040,724	102,600	124,093	94,375	21,742	15,736	—	—	2,399,270			
Non-interest bearing liabilities												
Equity	—	—	—	—	—	—	—	400,858	400,858			
Total liabilities and shareholders' equity	\$2,040,724	\$102,600	\$124,093	\$94,375	\$21,742	\$15,736	\$666,784	\$—	\$3,066,811			
Interest sensitivity gap	\$(1,239,413)	\$73,390	\$178,183	\$514,186	\$283,904	\$534,154	—	—	—			
Cumulative interest sensitivity gap	\$(1,239,413)	\$(1,166,023)	\$(987,840)	\$(473,654)	\$(189,750)	\$344,404	—	—	—			
Cumulative interest sensitivity gap as a	(40.4)%	(38.0)%	(32.2)%	(15.4)%	(6.2)%	11.2	%

percentage of total assets							
Cumulative interest-earning assets as a percentage of cumulative interest-bearing liabilities	39	% 46	% 56	% 80	% 92	% 114	%

- (1) Based on contractual maturities, repricing dates and forecasted principal payments assuming normal amortization and, where applicable, prepayments.
- (2) Assumes 100% of interest-bearing non-maturity deposits are subject to repricing in three months or less.
- (3) Based on contractual maturity.

As of December 31, 2013, the Bank was asset sensitive overall, but liability sensitive in the "three months or less," the "more than three months to six months" and the "more than six months to twelve months" periods. The positive gap in the interest rate sensitivity analysis indicates that our net interest income would rise in the long term if market interest rates increase and generally fall in the long term if market interest rates decline.

Changes in the mix of interest-earning assets or interest-bearing liabilities can either increase or decrease the net interest margin, without affecting interest rate sensitivity. In addition, the interest rate spread between an earning asset and its funding liability can vary significantly, while the timing of repricing for both the asset and the liability remains the same, thereby impacting net interest income. This characteristic is referred to as basis risk. Varying interest rate environments can create

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unexpected changes in prepayment levels of assets and liabilities that are not reflected in the interest rate sensitivity analysis. These prepayments may have a significant impact on our net interest margin. Because of these factors, an interest sensitivity gap analysis may not provide an accurate assessment of our actual exposure to changes in interest rates.

The estimated impact on our net interest income over a time horizon of one year and the change in net portfolio value as of December 31, 2013 and December 31, 2012 are provided in the table below. For the scenarios shown, the interest rate simulation assumes an instantaneous and sustained shift in market interest rates over a twelve-month period and no change in the composition or size of the balance sheet.

Change in Interest Rates (basis points)	December 31, 2013		December 31, 2012	
	Percentage Change		Percentage Change	
	Net Interest Income	Net Portfolio Value	Net Interest Income	Net Portfolio Value
+200	(4.4)%	(21.2)%	(0.9)%	(24.7)%
+100	(1.6)	(10.9)	(0.3)	(10.8)
-100	(1.9)	7.8	(2.4)	3.2
-200	(3.0)%	6.7	(2.0)%	6.7

(1) This percentage change represents the impact to net interest income and servicing income for a one-year period, assuming there is no change in the structure of the balance sheet.

(2) This percentage change represents the impact to the net present value of equity, assuming there is no change in the structure of the balance sheet.

At December 31, 2013, we believe our net interest income did not exhibit a strong bias to either an increase in interest rates or a decline in interest rates. It is expected that, as interest rates change, net interest income will be positively correlated, +/- 100 (asset sensitive), however, if they continue to shift, net interest income becomes negatively correlated, +/- 200 (liability sensitive). This is typically caused by the repricing characteristics whereby an increase in market interest rates would have a slightly positive effect on net interest income. A large decrease in market interest rates would have a greater negative effect on net interest income because assets would reprice more quickly than liabilities, decreasing revenue. Some of the assumptions made in the simulation model may not materialize and unanticipated events and circumstances will occur. In addition, the simulation model does not take into account any future actions that we could undertake to mitigate an adverse impact due to changes in interest rates from those expected, in the actual level of market interest rates or competitive influences on our deposit base.

Risk Management Instruments

We originate fixed-rate residential home mortgages primarily for sale into the secondary market. These loans are hedged against interest rate fluctuations from the time of the loan commitment until the loans are sold.

We have been able to manage interest rate risk by matching both on- and off-balance sheet assets and liabilities, within reasonable limits, through a range of potential rate and repricing characteristics. Where appropriate, we also use hedging techniques including the use of forward sale commitments, option contracts and interest rate swaps.

In order to protect the economic value of our mortgage servicing rights, we employ hedging strategies utilizing derivative financial instruments including forward interest rate swaps, options on interest rate swap contracts and commitments to purchase mortgage backed securities. We utilize these instruments as economic hedges and changes in the fair value of these instruments are recognized in current income as a component of mortgage servicing income. Our mortgage servicing rights hedging policy requires management to hedge the impact on the value of our mortgage servicing rights for a low-probability, extreme and sudden increase in interest rates. This policy requires that we hedge

estimated losses to a maximum of a \$2.0 million loss, subject to the limitations of hedging effectiveness including market risk, basis risk, counterparty credit risk and others.

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The following table presents the financial instruments we used for hedging purposes.

(in thousands)	At December 31, 2013		Hedged risk				
	Notional amount	Fair value	Asset derivatives	Liability derivatives	Asset ⁽¹⁾ interest rate locks	Asset ⁽¹⁾ loans held for sale	Asset ⁽¹⁾ MSR	Asset ^{(2)} loans held for investment
Forward sale commitments	\$526,382	\$3,630	\$(578)	) \$—	\$3,578	\$(526)) \$—
Interest rate swaptions	110,000	858	(199)	) —	—	658	—
Interest rate lock commitments	261,070	6,012	(40)	) 5,972	—	—	—
Interest rate swaps	508,004	1,088	(9,548)	) —	—	(3,832)	) (4,628)
	\$1,405,456	\$11,588	\$(10,365)	) \$5,972	\$3,578	\$(3,700)	) \$(4,628)

(1) Economic fair value hedge.

(2) Fair value hedge in accordance with hedge accounting standards.

We may implement other hedge transactions using forward loan sales, futures, option contracts and interest rate swaps, interest rate floors, financial futures, forward rate agreements and U.S. Treasury options on futures or bonds. Prior to considering any hedging activities, we analyze the costs and benefits of the hedge in comparison to other viable alternative strategies.

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ITEM 8 FINANCIAL STATEMENTS AND
SUPPLEMENTARY DATA

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
HomeStreet, Inc.
Seattle, Washington

We have audited the accompanying statement of financial condition of HomeStreet, Inc. and subsidiaries (the "Company") as of December 31, 2013, and the related statements of operations, comprehensive income, shareholders' equity, and cash flows for the year ended December 31, 2013. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The consolidated financial statements of the Company for the years ended December 31, 2012, and 2011, before the effects of the retrospective adjustments to the disclosures for a change in the composition of reportable segments discussed in Note 20 to the consolidated financial statements, were audited by other auditors whose report, dated March 15, 2013, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of HomeStreet, Inc. and subsidiaries as of December 31, 2013, and the results of their operations and their cash flows for the year ended December 31, 2013, in conformity with accounting principles generally accepted in the United States of America.

We also have audited the adjustments to the 2012 and 2011 consolidated financial statements to retrospectively adjust the disclosures for a change in the composition of reportable segments in 2013, as discussed in Note 20 to the consolidated financial statements. Our procedures included (1) comparing the adjustment amounts of segment net income and average assets to the Company's underlying analysis and (2) testing the mathematical accuracy of the reconciliations of segment amounts to the consolidated financial statements. In our opinion, such retrospective adjustments are appropriate and have been properly applied. However, we were not engaged to audit, review, or apply any procedures to the 2012 and 2011 consolidated financial statements of the Company other than with respect to the retrospective adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2012 and 2011 consolidated financial statements taken as a whole.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2013, based on Internal Control - Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 17, 2014 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ Deloitte & Touche LLP

Seattle, Washington

March 17, 2014

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders

HomeStreet, Inc.:

We have audited, before the effects of changes to reportable segments that resulted in retrospective restatement of the segment disclosures as described in Note 20, the accompanying consolidated statement of financial condition of HomeStreet, Inc. and subsidiaries (the Company) as of December 31, 2012, and the related consolidated statements of operations, comprehensive income, shareholders' equity, and cash flows for each of the years in the two-year period ended December 31, 2012. The 2012 and 2011 consolidated financial statements before the effects of the adjustments discussed in Note 20 are not presented herein. The 2012 and 2011 consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the 2012 and 2011 consolidated financial statements, before the effects of changes to reportable segments that resulted in retrospective restatement of the segment disclosures as described in Note 20, referred to above, present fairly, in all material respects, the financial position of the Company as of December 31, 2012, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2012 in conformity with U.S. generally accepted accounting principles.

We were not engaged to audit, review, or apply any procedures to the adjustments to segment disclosures described in Note 20, and, accordingly, we do not express an opinion or any other form of assurance about whether such adjustments are appropriate and have been properly applied. Those adjustments were audited by a successor auditor.
(signed) KPMG LLP

Seattle, Washington

March 15, 2013

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HOMESTREET, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(in thousands, except share data)	At December 31,	
	2013	2012
ASSETS		
Cash and cash equivalents (including interest-bearing instruments of \$9,436 and \$12,414)	\$33,908	\$25,285
Investment securities (includes \$481,683 and \$416,329 carried at fair value)	498,816	416,517
Loans held for sale (includes \$279,385 and \$607,578 carried at fair value)	279,941	620,799
Loans held for investment (net of allowance for loan losses of \$23,908 and \$27,561)	1,871,813	1,308,974
Mortgage servicing rights (includes \$153,128 and \$87,396 carried at fair value)	162,463	95,493
Other real estate owned	12,911	23,941
Federal Home Loan Bank stock, at cost	35,288	36,367
Premises and equipment, net	36,612	15,232
Goodwill	12,063	424
Accounts receivable and other assets	122,239	88,198
Total assets	\$3,066,054	\$2,631,230
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Deposits	\$2,210,821	\$1,976,835
Federal Home Loan Bank advances	446,590	259,090
Accounts payable and other liabilities	77,906	69,686
Long-term debt	64,811	61,857
Total liabilities	2,800,128	2,367,468
Shareholders' equity:		
Preferred stock, no par value, authorized 10,000 shares, issued and outstanding, 0 shares and 0 shares	—	—
Common stock, no par value, authorized 160,000,000, issued and outstanding, 14,799,991 shares and 14,382,638 shares	511	511
Additional paid-in capital	94,474	90,189
Retained earnings	182,935	163,872
Accumulated other comprehensive income	(11,994	) 9,190
Total shareholders' equity	265,926	263,762
Total liabilities and shareholders' equity	\$3,066,054	\$2,631,230

See accompanying notes to consolidated financial statements.

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HOMESTREET, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except share data)	Year Ended December 31,		
	2013	2012	2011
Interest income:			
Loans	\$76,442	\$71,057	\$71,794
Investment securities available for sale	12,391	9,391	6,921
Other	143	243	477
	88,976	80,691	79,192
Interest expense:			
Deposits	10,416	16,741	24,815
Federal Home Loan Bank advances	1,532	1,788	3,821
Securities sold under agreements to repurchase	11	70	—
Long-term debt	2,546	1,333	2,046
Other	27	16	16
	14,532	19,948	30,698
Net interest income	74,444	60,743	48,494
Provision for credit losses	900	11,500	3,300
Net interest income after provision for credit losses	73,544	49,243	45,194
Noninterest income:			
Net gain on mortgage loan origination and sale activities	164,712	210,564	48,467
Mortgage servicing income	17,073	16,121	38,056
Income from WMS Series LLC	704	4,264	2,119
(Loss) gain on debt extinguishment	—	(939	) 2,000
Depositor and other retail banking fees	3,172	3,062	3,061
Insurance agency commissions	864	743	910
Gain on sale of investment securities available for sale (includes unrealized gains reclassified from accumulated other comprehensive income of \$1,772, \$1,490 and \$1,102)	1,772	1,490	1,102
Other	2,448	2,715	1,490
	190,745	238,020	97,205
Noninterest expense:			
Salaries and related costs	149,440	119,829	53,519
General and administrative	40,366	27,838	18,490
Legal	2,552	1,796	3,360
Consulting	5,637	3,037	2,644
Federal Deposit Insurance Corporation assessments	1,433	3,554	5,534
Occupancy	13,765	8,585	6,764
Information services	14,491	8,867	5,902
Net cost of operation and sale of other real estate owned	1,811	10,085	30,281
	229,495	183,591	126,494
Income before income taxes	34,794	103,672	15,905
Income tax expense (benefit) (includes reclassification adjustments of \$620, \$522 and \$0)	10,985	21,546	(214
))
NET INCOME	\$23,809	\$82,126	\$16,119
Basic income per share	\$1.65	\$6.17	\$2.98
Diluted income per share	\$1.61	\$5.98	\$2.80

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Basic weighted average number of shares outstanding	14,412,059	13,312,939	5,403,498
Diluted weighted average number of shares outstanding	14,798,168	13,739,398	5,748,342

See accompanying notes to consolidated financial statements.

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HOMESTREET, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)	Year Ended December 31,		
	2013	2012	2011
Net income	\$23,809	\$82,126	\$16,119
Other comprehensive income, net of tax:			
Unrealized gain (loss) on investment securities available for sale:			
Unrealized holding (loss) gain arising during the year, net of tax	(20,032	) 6,039	12,587
(benefit) expense of \$(10,786), \$3,098 and \$0			
Reclassification adjustment for net gains included in net income, net	(1,152	) (968	) (1,103
of tax expense of \$620, \$522 and \$0)
Other comprehensive income	(21,184	) 5,071	11,484
Comprehensive income	\$2,625	\$87,197	\$27,603

See accompanying notes to consolidated financial statements.

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**HOMESTREET, INC. AND SUBSIDIARIES
 CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**

(in thousands, except share data)	Number of shares	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Total
Balance, January 1, 2011	5,403,498	\$511	\$16	\$65,627	\$ (7,365)	\$58,789
Net income	—	—	—	16,119	—	16,119
Share-based compensation expense	—	—	15	—	—	15
Other comprehensive income	—	—	—	—	11,484	11,484
Balance, December 31, 2011	5,403,498	511	31	81,746	4,119	86,407
Net income	—	—	—	82,126	—	82,126
Share-based compensation expense	—	—	3,308	—	—	3,308
Common stock issued	8,979,140	—	86,850	—	—	86,850
Other comprehensive income	—	—	—	—	5,071	5,071
Balance, December 31, 2012	14,382,638	511	90,189	163,872	9,190	263,762
Net income	—	—	—	23,809	—	23,809
Dividends declared (\$0.33 per share)	—	—	—	(4,746)	—	(4,746)
Share-based compensation expense	—	—	4,097	—	—	4,097
Common stock issued	417,353	—	188	—	—	188
Other comprehensive income	—	—	—	—	(21,184)	(21,184)
Balance, December 31, 2013	14,799,991	\$511	\$94,474	\$182,935	\$ (11,994)	\$265,926

See accompanying notes to consolidated financial statements.

**HOMESTREET, INC. AND SUBSIDIARIES
 CONSOLIDATED STATEMENTS OF CASH FLOWS**

(in thousands)	Year Ended December 31,		
	2013	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$23,809	\$82,126	\$16,119
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation, amortization and accretion	14,947	9,953	5,856
Provision for credit losses	900	11,500	3,300

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Provision for losses on other real estate owned	603	12,171	27,079	
Fair value adjustment of loans held for sale	23,776	(24,665) (5,100)
Origination of mortgage servicing rights	(63,604	) (51,838	) (31,449)
Change in fair value of mortgage servicing rights	(5,134	) 31,680	40,000	
Net gain on sale of investment securities	(1,772	) (1,490	) (1,102)
Net fair value adjustment and gain on sale of other real estate owned	(940	) (3,400	) (190)
Loss (gain) on early retirement of long-term debt	—	939	(2,000)
Net deferred income tax expense (benefit)	21,076	(5,110	) (16)
Share-based compensation expense	1,498	2,773	15	
Origination of loans held for sale	(4,428,569	) (5,173,725	) (1,942,587)
Proceeds from sale of loans originated as held for sale	4,745,651	4,728,000	2,009,880	
Cash used by changes in operating assets and liabilities:				
(Increase) decrease in accounts receivable and other assets	(11,212	) (28,181	) (14,955)
Increase (decrease) in accounts payable and other liabilities	(16,999	) 17,397	(15,130)
Net cash provided by (used in) operating activities	304,030	(391,870	) 89,720	
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchase of investment securities	(317,695	) (285,165	) (308,428)
Proceeds from sale of investment securities	127,648	166,187	239,878	
Principal repayments and maturities of investment securities	70,962	35,813	62,507	
Proceeds from sale of other real estate owned	19,656	49,566	144,646	
Proceeds from sale of loans originated as held for investment	86,327	9,966	—	
Purchase of Yakima National and Fortune Banks and AmericanWest branches, net of cash acquired	23,971	—	—	
Mortgage servicing rights purchased from others	(22	) (68	) (87)
Capital expenditures related to other real estate owned	(22	) (4,676	) (958)
Origination of loans held for investment and principal repayments, net	(447,873	) (63,079	) 196,080	
Property and equipment purchased	(22,836	) (11,402	) (1,758)
Net cash (used in) provided by investing activities	(459,884) (102,858) 331,880	

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(continued from prior page)

	Year Ended December 31,		
	2013	2012	2011
CASH FLOWS FROM FINANCING ACTIVITIES:			
Decrease in deposits, net	\$(27,129)	) \$(32,920	) \$(119,987)
Proceeds from Federal Home Loan Bank advances	5,847,392	9,924,854	35,068
Repayment of Federal Home Loan Bank advances	(5,659,892)	) (9,724,622	) (143,018)
Proceeds from securities sold under agreements to repurchase	159,790	424,672	—
Repayment of securities sold under agreements to repurchase	(159,790)	) (424,672) —
Proceeds from Federal Home Loan Bank stock repurchase	1,319	660	—
Repayment of long-term debt	—	—	(3,000)
Proceeds from stock issuance, net	188	88,204	—
Excess tax benefits related to exercise of stock options	2,599	535	—
Net cash provided by (used in) financing activities	164,477	256,711	(230,937)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	8,623	(238,017	) 190,663
CASH AND CASH EQUIVALENTS:			
Beginning of year	25,285	263,302	72,639
End of period	\$33,908	\$25,285	\$263,302
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Cash paid during the period for:			
Interest	\$28,373	\$21,304	\$31,638
Federal and state income taxes	6,799	26,376	1,115
Non-cash activities:			
Loans held for investment foreclosed and transferred to other real estate owned	12,807	51,128	38,694
Loans originated to finance the sales of other real estate owned	—	—	750
Loans transferred from held for investment to held for sale	93,567	9,966	—
Ginnie Mae loans recognized with the right to repurchase, net	\$6,360	\$5,674	\$(280)

See accompanying notes to consolidated financial statements.

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HomeStreet, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

HomeStreet, Inc. and its wholly owned subsidiaries (the “Company”) is a diversified financial services company serving customers primarily in the Pacific Northwest, California and Hawaii. The Company is principally engaged in real estate lending, including mortgage banking activities, and commercial and consumer banking. The consolidated financial statements include the accounts of HomeStreet, Inc. and its wholly owned subsidiaries, HomeStreet Capital Corporation and HomeStreet Bank (the “Bank”), and the Bank’s subsidiaries, HomeStreet/WMS, Inc., HomeStreet Reinsurance, Ltd., Continental Escrow Company, Union Street Holdings LLC and Lacey Gateway LLC. HomeStreet Bank was formed in 1986 and is a state-chartered savings bank.

The Company’s accounting and financial reporting policies conform to accounting principles generally accepted in the United States of America (U.S. GAAP). Inter-company balances and transactions have been eliminated in consolidation. In preparing the consolidated financial statements, the Company is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements and revenues and expenses during the reporting periods and related disclosures. Although these estimates contemplate current conditions and how they are expected to change in the future, it is reasonably possible that actual conditions could be worse than anticipated in those estimates, which could materially affect the Company’s results of operations and financial condition. Management has made significant estimates in several areas, including the fair value of assets acquired and liabilities assumed in business combinations (Note 3, Business Combinations), allowance for credit losses (Note 6, Loans and Credit Quality), valuation of residential mortgage servicing rights and loans held for sale (Note 13, Mortgage Banking Activities), loans held for investment (Note 6, Loans and Credit Quality), investment securities (Note 5, Investment Securities), derivatives (Note 12, Derivatives), other real estate owned (Note 7, Other Real Estate Owned), and taxes (Note 15, Income Taxes). Actual results could differ materially from those estimates. Certain amounts in the financial statements from prior periods have been reclassified to conform to the current financial statement presentation.

Consolidation

The Company consolidates legal entities in which it has a controlling financial interest. The Company determines whether it has a controlling financial interest by first evaluating whether an entity is a variable interest entity (“VIE”). If an entity is determined to not be a VIE, it is considered to be a voting interest entity.

Variable Interest Entities

The Company may have variable interests in VIEs arising from debt, equity or other monetary interests in an entity, which change with fluctuations in the fair value of the entity's assets. VIEs are entities that, by design, either (1) lack sufficient equity to permit the entity to finance its activities without additional subordinated financial support from other parties, or (2) have equity investors that do not have the ability to make significant decisions relating to the entity's operations through voting rights, or do not have the obligation to absorb the expected losses, or do not have the right to receive the residual returns of the entity.

The primary beneficiary of a VIE (i.e., the party that has a controlling financial interest) is required to consolidate the assets and liabilities of the VIE. The primary beneficiary is the party that has both (1) the power to direct the activities of an entity that most significantly impact the VIE's economic performance; and (2) through its interests in the VIE, the obligation to absorb losses or the right to receive benefits from the VIE that could potentially be significant to the VIE.

The Company's loans held for sale are sold predominantly to government-sponsored enterprises ("GSEs") Fannie Mae, Freddie Mac and Ginnie Mae for the purpose of securitization by the GSEs, who also provide credit enhancement of the loans through certain guarantee provisions. The Company typically retains the right to service the loans. Because of the power of the GSEs over the VIEs that hold the assets from these residential mortgage loan securitizations, the Company is not the primary beneficiary of the VIEs and therefore the VIEs are not consolidated.

The Company performs on-going reassessments of: (1) whether entities previously evaluated under the majority voting-interest framework have become VIEs, based on certain events, and therefore become subject to the VIE consolidation framework; and (2) whether changes in the facts and circumstances regarding the Company's involvement with a VIE cause the Company's consolidation determination to change.

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Voting Interest Entities

Voting interest entities are entities that have sufficient equity and provide the equity investors voting rights that enable them to make significant decisions relating to the entity's operations. For these types of entities, the Company's determination of whether it has a controlling financial interest is primarily based on the amount of voting equity interests held. Entities in which the Company has a controlling financial interest, through ownership of the majority of the entities' voting equity interests, or through other contractual rights that give the Company control, are consolidated by the Company. Investments in entities in which the Company has significant influence over operating and financing decisions (but does not own a majority of the voting equity interests) are accounted for in accordance with the equity method of accounting (which requires the Company to recognize its proportionate share of the entity's net earnings). These investments are generally included in other assets.

The Company may have investments in limited partnerships or limited liability companies. The Company generally consolidates entities where it is the general partner or managing member. However, certain entities may provide limited partners or members the ability to remove the Company as the general partner or managing member without cause (i.e., kick-out rights), based on a simple majority vote, or the limited partners or members have rights to participate in important decisions of the entity. Accordingly, the Company does not consolidate these entities, in which case they are accounted for in accordance with the equity method of accounting. For equity method investments holding real estate acquired in any manner for debts previously contracted with the Company, the investment is included in other real estate owned in the consolidated statements of financial condition and the proportionate share of the entity's net earnings are included in other real estate owned expense in the consolidated statements of operations.

Cash and Cash Equivalents

Cash and cash equivalents include cash, interest-earning overnight deposits at other financial institutions, and other investments with original maturities equal to three months or less. For the consolidated statements of cash flows, the Company considered cash equivalents to be investments that are readily convertible to known amounts, so near to their maturity that they present an insignificant risk of change in fair value due to change in interest rates, and purchased in conjunction with cash management activities. Restricted cash of \$2.4 million and \$2.4 million as of December 31, 2013 and 2012, respectively, is included in accounts receivable and other assets for reinsurance-related reserves.

Investment Securities

Investment securities that we might not hold until maturity are classified as available for sale ("AFS") and are reported at fair value in the statement of financial condition. Fair value measurement is based upon quoted market prices in active markets, if available. If quoted prices in active markets are not available, fair value is measured using pricing models or other model-based valuation techniques such as the present value of future cash flows, which consider prepayment assumptions and other factors such as credit losses and market liquidity. Unrealized gains and losses are excluded from earnings and reported, net of tax, in other comprehensive income ("OCI"). Purchase premiums and discounts are recognized in interest income using the effective interest method over the life of the securities. Purchase premiums or discounts related to mortgage-backed securities are amortized or accreted using projected prepayment speeds. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

AFS investment securities in unrealized loss positions are evaluated for other-than-temporary impairment ("OTTI") at least quarterly. For AFS debt securities, decline in fair value is considered to be other-than-temporary if the Company does not expect to recover the entire amortized cost basis of the security. For AFS equity securities, the Company considers a decline in fair value to be other-than-temporary if it is probable that the Company will not recover its

amortized cost basis.

Impairment may result from credit deterioration of the issuer or collateral underlying the security. In performing an assessment of recoverability, all relevant information is considered, including the length of time and extent to which fair value has been less than the amortized cost basis, the cause of the price decline, credit performance of the issuer and underlying collateral, and recoveries or further declines in fair value subsequent to the balance sheet date.

For debt securities, the Company measures and recognizes OTTI losses through earnings if (1) the Company has the intent to sell the security or (2) it is more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis. In these circumstances, the impairment loss is equal to the full difference between the amortized cost basis and the fair value of the security. For securities that are considered other-than-temporarily-impaired that the Company has the intent and ability to hold in an unrealized loss position, the OTTI write-down is separated into an amount representing the credit loss, which is recognized in earnings, and the amount related to other factors, which is recognized as a component of OCI.

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For equity securities, the Company recognizes OTTI losses through earnings if the Company intends to sell the security. The Company also considers other relevant factors, including its intent and ability to retain the security for a period of time sufficient to allow for any anticipated recovery in market value, and whether evidence exists to support a realizable value equal to or greater than the carrying value. Any impairment loss on an equity security is equal to the full difference between the amortized cost basis and the fair value of the security.

Federal Home Loan Bank Stock

As a borrower from the Federal Home Loan Bank of Seattle ("FHLB"), the Company is required to purchase an amount of FHLB stock based on our outstanding borrowings with the FHLB. This stock is used as collateral to secure the borrowings from the FHLB and is accounted for as a cost-method investment. FHLB stock is reviewed at least quarterly for possible OTTI, which includes an analysis of the FHLB's cash flows, capital needs and long-term viability.

Loans Held for Sale

Loans originated for sale in the secondary market, which is our principal market, or as whole loan sales are classified as loans held for sale. Management has elected the fair value option for all single family loans held for sale and records these loans at fair value. The fair value of loans held for sale is generally based on observable market prices from other loans in the secondary market that have similar collateral, credit, and interest rate characteristics. If quoted market prices are not readily available, the Company may consider other observable market data such as dealer quotes for similar loans or forward sale commitments. In certain cases, the fair value may be based on a discounted cash flow model. Gains and losses from changes in fair value on loans held for sale are recognized in net gain on mortgage loan origination and sale activities within noninterest income. Direct loan origination costs and fees for single family loans classified as held for sale are recognized in earnings.

Multifamily loans held for sale are accounted for at the lower of amortized cost or fair value. Related gains and losses are recognized in net gain on mortgage loan origination and sale activities. Direct loan origination costs and fees for multifamily loans classified as held for sale are deferred at origination and recognized in earnings at the time of sale.

Loans Held for Investment

Loans held for investment are reported at the principal amount outstanding, net of cumulative charge-offs, interest applied to principal (for loans accounted for using the cost recovery method), unamortized net deferred loan origination fees and costs and unamortized premiums or discounts on purchased loans. Deferred fees and costs and premiums and discounts are amortized over the contractual terms of the underlying loans using the constant effective yield (the interest method). Interest on loans is accrued and recognized as interest income at the contractual rate of interest. Loan commitment fees are generally deferred and amortized into noninterest income on a straight-line basis over the commitment period. A determination is made as of the loan commitment date as to whether a loan will be held for sale or held for investment. This determination is based primarily on the type of loan or loan program and its related profitability characteristics.

When a loan is designated as held for investment, the intent is to hold these loans for the foreseeable future or until maturity or pay-off. If subsequent changes occur, the Company may change its intent to hold these loans. Once a determination has been made to sell such loans, they are immediately transferred to loans held for sale and carried at the lower of cost or fair value.

From time to time, the Company will originate loans to facilitate the sale of other real estate owned without a sufficient down payment from the borrower. Such loans are accounted for using the installment method and any gain on sale is deferred.

Nonaccrual Loans

Loans are placed on nonaccrual status when the full and timely collection of principal and interest is doubtful, generally when the loan becomes 90 days or more past due for principal or interest payment or if part of the principal balance has been charged off.

All payments received on nonaccrual loans are accounted for using the cost recovery method. Under the cost recovery method, all cash collected is applied to first reduce the principal balance. A loan may be returned to accrual status if all delinquent principal and interest payments are brought current and the collectability of the remaining principal and interest payments in accordance with the loan agreement is reasonably assured. Loans that are well-secured and in the collection process are maintained on accrual status, even if they are 90 days or more past due. Loans whose repayments are insured by the Federal Housing Authority ("FHA") or guaranteed by the Department of Veterans' Affairs ("VA") are maintained on accrual status even if 90 days or more past due.

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Impaired Loans

A loan is considered impaired when it is probable that all contractual principal and interest payments due will not be collected in accordance with the terms of the loan agreement. Factors considered by management in determining whether a loan is impaired include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due.

Troubled Debt Restructurings

A loan is accounted for and reported as a troubled debt restructuring (“TDR”) when, for economic or legal reasons, we grant a concession to a borrower experiencing financial difficulty that we would not otherwise consider. A restructuring that results in only an insignificant delay in payment is not considered a concession. A delay may be considered insignificant if the payments subject to the delay are insignificant relative to the unpaid principal or collateral value and the contractual amount due, or the delay in timing of the restructured payment period is insignificant relative to the frequency of payments, the debt's original contractual maturity or original expected duration.

TDRs are designated as impaired because interest and principal payments will not be received in accordance with original contract terms. TDRs that are performing and on accrual status as of the date of the modification remain on accrual status. TDRs that are nonperforming as of the date of modification generally remain as nonaccrual until the prospect of future payments in accordance with the modified loan agreement is reasonably assured, generally demonstrated when the borrower maintains compliance with the restructured terms for a predetermined period, normally at least six months. TDRs with temporary below-market concessions remain designated as a TDR and impaired regardless of the accrual or performance status until the loan is paid off.

Allowance for Credit Losses

Credit quality within the loans held for investment portfolio is continuously monitored by management and is reflected within the allowance for credit losses. The allowance for credit losses is maintained at a level that, in management's judgment, is appropriate to cover losses inherent within the Company's loans held for investment portfolio, including unfunded credit commitments, as of the balance sheet date. 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.

The loss estimation process involves procedures to appropriately consider the unique characteristics of its two loan portfolio segments, the consumer loan portfolio segment and the commercial loan portfolio segment. These two segments are further disaggregated into loan classes, the level at which credit risk is monitored. When computing allowance levels, credit loss assumptions are estimated using a model that categorizes loan pools based on loss history, delinquency status and other credit trends and risk characteristics. 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 overall loan portfolio, in light of the factors then prevailing, may result in significant changes in the allowance for credit losses in those future periods.

Credit quality is assessed and monitored by evaluating various attributes and utilizes such information in our evaluation of the adequacy of the allowance for credit losses. The following provides the credit quality indicators and risk elements that are most relevant and most carefully considered and monitored for each loan portfolio segment.

Consumer Loan Portfolio Segment

The consumer loan portfolio segment is comprised of the single family and home equity loan classes, which are underwritten after evaluating a borrower's capacity, credit, and collateral. Capacity refers to a borrower's ability to make payments on the loan. Several factors are considered when assessing a borrower's capacity, including the borrower's employment, income, current debt, assets, and level of equity in the property. Credit refers to how well a borrower manages their current and prior debts as documented by a credit report that provides credit scores and the

borrower's current and past information about their credit history. Collateral refers to the type and use of property, occupancy, and market value. Property appraisals are obtained to assist in evaluating collateral. Loan-to-property value and debt-to-income ratios, loan amount, and lien position are also considered in assessing whether to originate a loan. These borrowers are particularly susceptible to downturns in economic trends such as conditions that negatively affect housing prices and demand and levels of unemployment.

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Commercial Loan Portfolio Segment

The commercial loan portfolio segment is comprised of the commercial real estate, multifamily residential, construction/land development and commercial business loan classes, whose underwriting standards consider the factors described for single family and home equity loan classes as well as others when assessing the borrower's and associated guarantors or other related party's financial position. These other factors include assessing liquidity, the level and composition of net worth, leverage, considering all other lender amounts and position, an analysis of cash expected to flow through the obligors including the outflow to other lenders, and prior experience with the borrower. This information is used to assess adequate financial capacity, profitability, and experience. Ultimate repayment of these loans is sensitive to interest rate changes, general economic conditions, liquidity, and availability of long-term financing.

Loan Loss Measurement

Allowance levels are influenced by loan volumes, loan asset quality ratings ("AQR") migration or delinquency status, historic loss experience and other conditions influencing loss expectations, such as economic conditions. The methodology for evaluating the adequacy of the allowance for loan losses 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 principle losses for all other loans

Impaired Loans

When a loan is identified as impaired, impairment is measured based on net realizable value, or the difference between the discounted value of the expected future cash flows, based on the original effective interest rate, and the recorded investment balance of the loan. For impaired loans, we recognize impairment if we determine that the net realizable value of the impaired loan is less than the recorded investment of the loan (net of previous charge-offs and deferred loan fees and costs), except when the sole remaining source of collection is the underlying collateral. In these cases impairment is measured as the difference between the recorded investment balance of the loan and the fair value of the 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.

The starting point for determining the fair value of collateral is through obtaining external appraisals. Generally, collateral values for impaired loans are updated every twelve months, either from external third parties or in-house certified appraisers. A third party appraisal is required at least annually. Third party appraisals are obtained from a pre-approved list of independent, third party, local appraisal firms. Approval and addition to the list is based on experience, reputation, character, consistency and knowledge of the respective real estate market. Generally, appraisals are internally reviewed by the appraisal services group to ensure the quality of the appraisal and the expertise and independence of the appraiser. Once the impairment amount is determined an asset-specific allowance is provided for equal to the calculated impairment and included in the allowance for loan losses. If the calculated impairment is determined to be permanent or not recoverable, the impairment will be charged off. Factors considered by management in determining if impairment is permanent or not recoverable include whether management judges the loan to be uncollectible, repayment is deemed to be protracted beyond reasonable time frames or the loss becomes evident owing to the borrower's lack of assets or, for single family loans, the loan is 180 days or more past due unless both well-secured and in the process of collection.

Estimate of Probable Loan Losses

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.

In determining the allowance for loan losses we derive an estimated credit loss assumption from a model that categorizes loan pools based on loan type and 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 changes in the following: (1) lending policies and procedures; (2) international, national, regional and local economic business conditions and developments that affect the collectability of the portfolio, including the condition of various markets; (3) the nature and volume of the loan portfolio including the terms of the loans; (4) the experience, ability, and depth of the lending

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management and other relevant staff; (5) the volume and severity of past due and adversely classified or graded loans and the volume of nonaccrual loans; (6) the quality of our loan review system; (7) the value of underlying collateral for collateral-dependent loans. Additional factors include (8) the existence and effect of any concentrations of credit, and changes in the level of such concentrations and (9) 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.

Unfunded Loan Commitments

The Company maintains a separate allowance for losses on unfunded loan commitments, which is included in accounts payable and other liabilities on the consolidated statements of financial condition. Management estimates the amount of probable losses by applying the loss factors used in the allowance for loan loss methodology to estimate the liability for credit losses related to unfunded commitments for each loan type.

Other Real Estate Owned

Other real estate owned ("OREO") represents real estate acquired for debts previously contracted with the Company, generally through the foreclosure of loans. In certain cases, such as foreclosures on loans involving both the Company and other participating lenders, other real estate owned may be held in the form of an investment in an unconsolidated legal entity that is in-substance real estate. These properties are initially recorded at the net realizable value (fair value of collateral less estimated costs to sell). Upon transfer of a loan to other real estate owned, an appraisal is obtained and any excess of the loan balance over the net realizable value is charged against the allowance for loan losses. The Company allows up to 90 days after foreclosure to finalize determination of net realizable value. Subsequent declines in net realizable value identified from the ongoing analysis of such properties are recognized in current period earnings within noninterest expense as a provision for losses on other real estate owned. The net realizable value of these assets is reviewed and updated at least every six months depending on the type of property, or more frequently as circumstances warrant.

As part of our subsequent events analysis process, we review updated independent third-party appraisals received and internal collateral valuations received subsequent to the reporting period-end to determine whether the fair value of loan collateral or OREO has changed. Additionally, we review agreements to sell OREO properties executed prior to and subsequent to the reporting period-end to identify changes in the fair value of OREO properties. If we determine that current valuations have changed materially from the prior valuations, we record any additional loan impairments or adjustments to OREO carrying values as of the end of the prior reporting period.

From time to time the Company may elect to accelerate the disposition of certain OREO properties in a time frame faster than the expected marketing period assumed in the appraisal supporting our valuation of such properties. At the time a property is identified and the decision to accelerate its disposition is made, that property's underlying fair value is re-measured. Generally, to achieve an accelerated time frame in which to sell a property, the price that the Company is willing to accept for the disposition of the property decreases. Accordingly, the net realizable value of these properties is adjusted to reflect this change in valuation. Any resulting downward valuation adjustments are recorded in earnings at the time the property is identified and the decision to accelerate its disposition is made and any future changes in net realizable value are measured based on the accelerated time frame.

Mortgage Servicing Rights

We initially record all mortgage servicing rights ("MSRs") at fair value. For subsequent measurement of MSRs, accounting standards permit the election of either fair value or the lower of amortized cost or fair value. Management

has elected to account for single family MSR's at fair value during the life of the MSR, with changes in fair value recorded through current period earnings. Fair value adjustments encompass market-driven valuation changes as well as modeled amortization involving the run-off of value that occurs due to the passage of time as individual loans are paid by borrowers. We account for multifamily MSR's at the lower of amortized cost or fair value.

MSR's are recorded as separate assets on our consolidated statements of financial condition upon purchase of the rights or when we retain the right to service loans that we have sold. Net gains on mortgage loan origination and sale activities depend, in part, on the initial fair value of MSR's, which is based on a discounted cash flow model.

Mortgage servicing income includes the changes in fair value over the reporting period of both our single family MSR's and the derivatives used to economically hedge our single family MSR's. Subsequent fair value measurements of single family MSR's,

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which are not traded in an active market with readily observable market prices, are determined by considering the present value of estimated future net servicing cash flows. Changes in the fair value of single family MSR result from changes in (1) model inputs and assumptions and (2) modeled amortization, representing the collection and realization of expected cash flows and curtailments over time. The significant model inputs used to measure the fair value of single family MSR include assumptions regarding market interest rates, projected prepayment speeds, discount rates, estimated costs of servicing and other income and additional expenses associated with the collection of delinquent loans.

Market expectations about loan duration, and correspondingly the expected term of future servicing cash flows, may vary from time to time due to changes in expected prepayment activity, especially when interest rates rise or fall. Market expectations of increased loan prepayment speeds may negatively impact the fair value of the single family MSR. Fair value is also dependent on the discount rate used in calculating present value, which is imputed from observable market activity and market participants. Management reviews and adjusts the discount rate on an ongoing basis. An increase in the discount rate would reduce the estimated fair value of the single family MSR asset.

For further information on how the Company measures the fair value of its single family MSR, including key economic assumptions and the sensitivity of fair value to changes in those assumptions, see Note 13, Mortgage Banking Operations.

Investment in WMS Series LLC

HomeStreet/WMS, Inc. (Windermere Mortgage Services, Inc.), a wholly owned and consolidated subsidiary of the Bank, has an affiliated business arrangement with Windermere Real Estate, WMS Series Limited Liability Company ("WMS LLC"). The Company and Windermere Real Estate each have 50% joint control over the governance of WMS LLC. The operations of WMS LLC, which is subdivided into 27 individual operating series, are recorded using the equity method of accounting. The Company recognizes its proportionate share of the results of operations of WMS LLC as income from WMS Series LLC in noninterest income within the Company's consolidated statements of operations.

The Company has determined that WMS LLC is not a VIE and further does not consolidate WMS LLC under the voting interest model. The 27 individual operating series, which are divisions of WMS LLC that are allocated assets and liabilities and allow certain forms of legal isolation, are not considered to be stand-alone subsidiary legal entities for purposes of applying the consolidation guidance under U.S. GAAP. As a result, the 27 individual operating series are not considered to be VIEs based on the determination that WMS LLC is not a VIE. The investment is reviewed for possible other-than-temporary impairment quarterly, or more frequently if warranted. The review typically includes an analysis of facts and circumstances of the investment and expectations regarding the investment's future cash flows. The Company has not recorded other-than-temporary impairment on this investment.

Equity method investment income from WMS LLC was \$1.7 million, \$4.0 million, and \$2.3 million for the years ended December 31, 2013, 2012, and 2011, respectively. The Company's investment in WMS LLC was \$2.7 million and \$3.3 million, which is included in accounts receivable and other assets at December 31, 2013 and 2012, respectively.

The Company provides contracted services to WMS LLC related to accounting, loan shipping, loan underwriting, quality control, secondary marketing, and information systems support performed by Company employees on behalf of WMS LLC. The Company recorded contracted services income/(loss) of \$(951) thousand, \$279 thousand, and \$(152) thousand for the years ended December 31, 2013, 2012, and 2011, respectively. Income related to WMS LLC, including equity method investment income and contracted services, is classified as income from WMS Series LLC in noninterest income within the consolidated statements of operations.

The Company provides a \$25.0 million secured line of credit that allows WMS LLC to fund and close single family mortgage loans in the name of WMS LLC. The outstanding balance of the secured line of credit was \$5.7 million and \$19.5 million at December 31, 2013, and 2012, respectively. The highest outstanding balance of the secured line of credit was \$21.4 million and \$24.5 million during 2013 and 2012, respectively. The line of credit matures July 1, 2014.

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Premises and Equipment

Furniture and equipment and leasehold improvements are stated at cost less accumulated depreciation or amortization and depreciated or amortized over the shorter of the useful life of the related asset or the term of the lease, generally 3 to 15 years, using the straight-line method. Management periodically evaluates furniture and equipment and leasehold improvements for impairment.

Goodwill

Goodwill is recorded upon completion of a business combination as the difference between the purchase price and the fair value of net identifiable assets acquired. Subsequent to initial recognition, the Company tests goodwill for impairment during the third quarter of each fiscal year, or more often if events or circumstances, such as adverse changes in the business climate, indicate there may be impairment. Goodwill was not impaired at December 31, 2013 or 2012, nor was any goodwill written off due to impairment during 2013, 2012 or 2011.

Trust Preferred Securities ("TruPS")

TruPS allow investors the ability to invest in junior subordinated debentures of the Company, which provide the Company with long-term financing. The transaction begins with the formation of a VIE established as a trust by the Company. This trust issues two classes of securities: common securities, all of which are purchased and held by the Company and recorded in other assets on the consolidated statements of financial position, and TruPS, which are sold to third-party investors. The trust holds subordinated debentures (debt) issued by the Company, which the Company records in long-term debt on the consolidated statement of financial position. The trust finances the purchase the subordinated debentures with the proceeds from the sale of its common and preferred securities.

The junior subordinated debentures are the sole assets of the trust, and the coupon rate on the debt mirrors the dividend payment on the preferred security. The Company also has the right to defer interest payments for up to five years and has the right to call the preferred securities. These preferred securities are non-voting and do not have the right to convert to shares of the issuer. The trust's common equity securities issued to the Company are not considered to be equity at risk because the equity securities were financed by the trust through the purchase of the debentures from the Company. As a consequence, the Company holds no variable interest in the trust, and therefore, is not the trust's primary beneficiary.

Securities Sold Under Agreements to Repurchase

From time to time, the Company may enter into sales of securities under agreements to repurchase the same securities ("repurchase agreements"). Repurchase agreements are accounted for as secured financing arrangements with the obligation to repurchase securities sold reflected as a liability in the consolidated statements of financial condition. The dollar amount of securities underlying the agreements remains in investment securities available for sale.

Income Taxes

In establishing an income tax provision, management applies judgment and interpretations about the application of complex tax laws, which includes making estimates about when certain items will affect future taxable income. 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 through the provision for income taxes in the period that includes the enactment date.

The Company records net deferred tax assets to the extent it is believed that these assets will more likely than not be realized. In making this determination, the Company 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 the Company 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.

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The Company recognizes interest and penalties related to unrecognized tax benefits, if any, 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.

Derivatives and Hedging Activities

In order to reduce the risk of significant interest rate fluctuations on the value of certain assets and liabilities, such as certain mortgage loans held for sale or mortgage servicing rights, the Company utilizes derivatives, such as forward sale commitments, interest rate futures, option contracts, interest rate swaps and swaptions as risk management instruments in its hedging strategy.

All free-standing derivatives are required to be recorded on the consolidated statements of financial condition at fair value. As permitted under U.S. GAAP, the Company nets derivative assets and liabilities, and related collateral, when a legally enforceable master netting agreement exists between the Company and the derivative counterparty. The accounting for changes in fair value of a derivative depends on whether or not the transaction has been designated and qualifies for hedge accounting. Derivatives that are not designated as hedges are reported and measured at fair value through earnings. The Company does not use derivatives for trading purposes.

Before initiating a position where hedge accounting treatment is desired, the Company formally documents the relationship between the hedging instrument(s) and the hedged item(s), as well as its risk management objective and strategy.

For derivative instruments qualifying for hedge accounting treatment, the instrument is designed as either: (1) a hedge of changes in fair value of a recognized asset or liability or of an unrecognized firm commitment (a fair value hedge), or (2) a hedge of the variability in expected future cash flows associated with an existing recognized asset or liability or a probable forecasted transaction (a cash flow hedge).

Derivatives where the Company has not attempted to achieve or attempted but did not achieve hedge accounting treatment are referred to as economic hedges. The changes in fair value of these instruments are recorded in our consolidated statements of operations in the period in which the change occurs.

In a fair value hedge, changes in the fair value of the derivative and, to the extent that it is effective, changes in the fair value of the hedged asset or liability attributable to the hedged risk are recorded through current period earnings in the same financial statement category as the hedged item.

In a cash flow hedge, the effective portion of the change in the fair value of the hedging derivative is recorded in accumulated other comprehensive income and is subsequently reclassified into earnings during the same period in which the hedged item affects earnings. The ineffective portion is recognized immediately in noninterest income – other.

The Company discontinues hedge accounting when (1) it determines that the derivative is no longer expected to be highly effective in offsetting changes in fair value or cash flows of the designated item; (2) the derivative expires or is sold, terminated, or exercised; (3) the derivative is de-designated from the hedge relationship; or (4) it is no longer probable that a hedged forecasted transaction will occur by the end of the originally specified time period.

If the Company determines that the derivative no longer qualifies as a fair value or cash flow hedge and therefore hedge accounting is discontinued, the derivative (if retained) will continue to be recorded on the balance sheet at its fair value with changes in fair value included in current earnings. For a discontinued fair value hedge, the previously hedged item is no longer adjusted for changes in fair value.

When the Company discontinues hedge accounting because it is not probable that a forecasted transaction will occur, the derivative will continue to be recorded on the balance sheet at its fair value with changes in fair value included in current earnings, and the gains and losses in accumulated other comprehensive income will be recognized immediately in earnings. When the Company discontinues hedge accounting because the hedging instrument is sold, terminated, or de-designated as a hedge, the amount reported in accumulated other comprehensive income through the date of sale, termination, or de-designation will continue to be reported in accumulated other comprehensive income until the forecasted transaction affects earnings.

Interest rate lock commitments ("IRLCs") for single family mortgage loans that we intend to sell are considered free-standing derivatives. For determining the fair value measurement of IRLCs we consider several factors including the fair value in the secondary market of the underlying loan resulting from the exercise of the commitment, the expected net future cash flows related to the associated servicing of the loan and the probability that the loan will not fund according to the terms of the

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commitment (referred to as a fall-out factor). The value of the underlying loan is affected primarily by changes in interest rates. Management uses forward sales commitments to hedge the interest rate exposure from IRLCs. A forward loan sale commitment protects the Company from losses on sales of loans arising from the exercise of the loan commitments by securing the ultimate sales price and delivery date of the loan. The Company takes into account various factors and strategies in determining the portion of the mortgage pipeline it wants to hedge economically. Unrealized and realized gains and losses on derivative contracts utilized for economically hedging the mortgage pipeline are recognized as part of the net gain on mortgage loan origination and sale activities within noninterest income.

The Company is exposed to credit risk if derivative counterparties to derivative contracts do not perform as expected. This risk consists primarily of the termination value of agreements where the Company is in a favorable position. The Company minimizes counterparty credit risk through credit approvals, limits, monitoring procedures, and obtaining collateral, as appropriate.

Share-Based Employee Compensation

The Company has share-based employee compensation plans as more fully discussed in Note 17, Share-Based Compensation Plans. Under the accounting guidance for stock compensation, compensation expense recognized includes the cost for share-based awards, such as nonqualified stock options and restricted stock grants, which are recognized as compensation expense over the requisite service period (generally the vesting period) on a straight line basis. For stock awards that vest upon the satisfaction of a market condition, the Company estimates the service period over which the award is expected to vest. If all conditions to the vesting of an award are satisfied prior to the end of the estimated vesting period, any unrecognized compensation costs associated with the portion of the award that vested earlier than expected are immediately recognized in earnings.

Fair Value Measurement

The term "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. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. The Company's approach is to maximize the use of observable inputs and minimize the use of unobservable inputs when developing fair value measurements. The degree of management judgment involved in estimating the fair value of a financial instrument or other asset is dependent upon the availability of quoted market prices or observable market value inputs for internal valuation models, used for estimating fair value. For financial instruments that are actively traded in the marketplace or whose values are based on readily available market data, little judgment is necessary when estimating the instrument's fair value. When observable market prices and data are not readily available, significant management judgment often is necessary to estimate fair value. In those cases, different assumptions could result in significant changes in valuation. See Note 18, Fair Value Measurement.

Commitments, Guarantees, and Contingencies

U.S. GAAP requires that a guarantor recognize, at the inception of a guarantee, a liability in an amount equal to the fair value of the obligation undertaken in issuing the guarantee. A guarantee is a contract that contingently requires the guarantor to pay a guaranteed party based upon: (a) changes in an underlying asset, liability or equity security of the guaranteed party; or (b) a third party's failure to perform under a specified agreement. The Company initially records guarantees at the inception date fair value of the obligation assumed and records the amount in other liabilities. For indemnifications provided in sales agreements, a portion of the sale proceeds is allocated to the guarantee, which adjusts the gain or loss that would otherwise result from the transaction. For these indemnifications, the initial liability

is amortized to income as the Company's risk is reduced (i.e., over time as the Company's exposure is reduced or when the indemnification expires).

Contingent liabilities, including those that exists as a result of a guarantee or indemnification, are recognized when it becomes probable that a loss has been incurred and the amount of the loss is reasonably estimable. The contingent portion of a guarantee is not recognized if the estimated amount of loss is less than the carrying amount of the liability recognized at inception of the guarantee (as adjusted for any amortization).

The Company typically sells loans servicing retained in either a pooled loan securitization transaction with a GSE, a whole loan sale to a GSE, or much less frequently a whole loan sale to market participants such as other financial institutions, who purchase the loans for investment purposes or include them in a private label securitization transaction, or the loans are pooled and sold into a conforming loan securitization with a government-sponsored enterprise ("GSE"), provided loan origination

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parameters conform to GSE guidelines. Substantially all of the Company's loan sales are pooled loan securitization transactions with GSEs. These conforming loan securitizations are guaranteed by GSEs, such as Fannie Mae, Ginnie Mae and Freddie Mac.

The Company may be required to repurchase mortgage loans or indemnify loan purchasers due to defects in the origination process of the loan, such as documentation errors, underwriting errors and judgments, early payment defaults and fraud. These obligations expose the Company to any credit loss on the repurchased mortgage loans after accounting for any mortgage insurance that it may receive. Generally, the maximum amount of future payments the Company would be required to make for breaches of these representations and warranties would be equal to the unpaid principal balance of such loans that are deemed to have defects that were sold to purchasers plus, in certain circumstances, accrued and unpaid interest on such loans and certain expenses. See Note 14, Commitments, Guarantees, and Contingencies.

The Company sells multifamily loans through the Fannie Mae Delegated Underwriting and Servicing Program ("DUS"®) (DUS® is a registered trademark of Fannie Mae.) that are subject to a credit loss sharing arrangement. The Company may also from time to time sell loans with recourse. When loans are sold with recourse or subject to a loss sharing arrangement, a liability is recorded based on the estimated fair value of the obligation under the accounting guidance for guarantees. These liabilities are included within other liabilities. See Note 14, Commitments, Guarantees, and Contingencies.

Earnings per Share

Basic earnings per share ("EPS") is computed by dividing net income available to common shareholders by the weighted average common shares outstanding during the period. Diluted EPS is computed by dividing net income available to common shareholders by the weighted average common shares outstanding, plus the effect of common stock equivalents (for example, stock options and unvested restricted stock). Stock options issued under stock-based compensation plans that have an antidilutive effect and shares of restricted stock whose vesting is contingent upon conditions that have not been satisfied at the end of the period are excluded from the computation of diluted EPS. Weighted average common shares outstanding include shares held by the Company's Employee Stock Ownership Plan. Shares outstanding and per share information presented in the consolidated financial statements have been adjusted to reflect the 2-for-1 forward stock splits effective on November 5, 2012 and on March 6, 2012, as well as the 1-for-2.5 reverse stock split effective on July 19, 2011.

Business Segments

The Company'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 regularly reviewed by the Company's chief operating decision maker for the purpose of allocating resources and evaluating the performance of the Company's businesses. The results for these business segments are based on management's accounting process, which assigns income statement items and assets to each responsible operating segment. This process is dynamic and is based on management's view of the Company's operations. If the management structure and/or the allocation process changes, allocations, transfers, and assignments may change. See Note 20, Business Segments.

Recent Accounting Developments

In December 2011, the FASB issued Accounting Standards Update ("ASU") 2011-11, Disclosures about Offsetting Assets and Liabilities, which requires enhanced disclosures about certain assets and liabilities that are subject to legally enforceable master netting or similar agreements, or that have otherwise been offset on the balance sheet under certain specific conditions that permit net presentation. In January 2013, the FASB issued ASU 2013-01, Clarifying

the Scope of Disclosures about Offsetting Assets and Liabilities, which clarifies that the scope of the enhanced disclosure requirements applies only to derivative instruments, repurchase and reverse repurchase agreements, and securities borrowing and lending transactions. The application of this guidance, which was effective in the first quarter of 2013, only affects the disclosure of these instruments and had no impact on the Company's consolidated statements of financial condition or results of operations.

In February 2013, the FASB issued ASU 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income, which modifies the presentation of accumulated other comprehensive income in the financial statements. Among other things, the ASU requires (with certain exceptions) the presentation of significant amounts reclassified from each component of accumulated other comprehensive income and the line items on the consolidated statement of operations affected by the reclassification. For public companies the guidance is effective for interim and annual reporting periods beginning after December 15, 2012. The application of this guidance only affected the presentation of the Company's financial statements and had no impact on the consolidated statements of financial condition or results of operations.

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In January 2014, the FASB issued ASU 2014-01, Accounting for Investments in Qualified Affordable Housing Projects, regarding investments in affordable housing projects that qualify for the low-income housing tax credit. The guidance replaces the effective yield method and allows companies to make an accounting policy election to amortize the cost of its investments in proportion to the tax benefits received if certain criteria are met, and present the amortization as a component of income tax expense. The guidance will become effective in the first quarter of 2015, with early adoption permitted in the first quarter of 2014. The Company is currently evaluating this guidance to determine any potential impact to its consolidated statements of financial condition and results of operations.

NOTE 2 – SIGNIFICANT RISKS AND UNCERTAINTIES:

Our earnings are dependent on our ability to originate loans and either sell them into the secondary market or hold them in our loan portfolio and collect principal and interest as they come due. When loans become nonperforming or their ultimate collection is in doubt, our income is adversely affected. Our ability to sustain profitability will depend significantly on our loan production and our ability to manage the credit quality of our loan portfolio.

For the years ended December 31, 2013, 2012 and 2011, substantially all the Company's loan production represented single family mortgages designated for sale. Single family mortgage loans originated predominantly conform to government-sponsored enterprise underwriting standards. The Company may be required to repurchase mortgage loans or indemnify loan purchasers due to defects in the origination process of the loan, such as documentation errors, underwriting errors and judgments, early payment defaults and fraud. For further information on the mortgage repurchase liability, see Note 14, Commitments, Guarantees and Contingencies.

Credit Quality

Credit quality within the loans held for investment portfolio is continuously monitored by management and is reflected in the allowance for credit losses. Allowance levels are influenced by loan volumes, loan AQR or delinquency status, historic loss experience and other conditions influencing loss expectations, such as economic conditions.

We employ a disciplined process and methodology to establish our allowance for credit losses each quarter. This process takes into consideration many factors to measure credit risk, which will vary based on the size of the loan, the contractual terms of the agreement, the credit characteristics of the borrower, the features of loan products, the existence and strength of guarantor support, and the availability, quality, and adequacy of any underlying collateral. The degree of credit risk and level of credit losses is highly dependent on the economic environment that unfolds subsequent to originating or acquiring assets. The extent of asset diversification and concentration also affect total credit risk. Credit risk is assessed through analyzing these and other factors.

The credit risk management process is governed centrally. The overall credit process includes comprehensive credit policies, judgmental or statistical credit underwriting, frequent and detailed risk measurement and modeling and loan review, quality control and audit processes. In addition, we have an independent loan review function that reports to the Credit Committee of our Board of Directors ("Credit Committee"), and internal auditors and regulatory examiners review and perform detailed tests of our credit underwriting, loan administration and allowance processes.

The Chief Credit Officer's primary responsibilities include directing the activities of the credit risk management function as it relates to the loan portfolio, overseeing loan portfolio performance and ensuring compliance with established credit policies, standards and limits, determining the reasonableness of our allowance for loan losses, reviewing and approving large credit exposures and delegating credit approval authorities. Senior credit administrators who oversee the lines of business have both transaction approval authority and governance authority for the approval of procedures within established policies, standards and limits. The Chief Credit Officer reports directly to the

President and Chief Executive Officer.

The Company's Loan Committee (the "Loan Committee"), established by the Credit Committee of the Company's Board of Directors, provides direction and oversight within our risk management framework. The Loan Committee seeks to ensure effective portfolio risk analysis and policy review and to support sound implementation of defined business and risk strategies. Additionally, the Loan Committee periodically approves credits larger than the Chief Credit Officer's or Chief Executive Officer's individual approval authorities allow. The members of the Loan Committee are the Chief Executive Officer, Chief Credit Officer and the Commercial Banking Director.

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Credit Risk Concentrations

Concentrations of credit risk arise when a number of customers are engaged in similar business activities or activities in the same geographic region, or when they have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic conditions.

Loans held for investment are primarily secured by real estate located in the states of Washington, Oregon, Idaho and Hawaii.

At December 31, 2013 we had concentrations representing 10% or more of the total portfolio by state and property type for the loan classes of single family and commercial real estate within the state of Washington, which represented 37.3% and 21.2% of the total portfolio, respectively. At December 31, 2012 we had concentrations representing 10% or more of the total portfolio by state and property type for the loan classes of single family and commercial real estate within the state of Washington, which represented 40.4% and 22.5% of the total portfolio, respectively. These loans were mostly located within the metropolitan area of Puget Sound, particularly within King County.

Regulatory Agreements

The Company previously was subject to an Order to Cease and Desist issued by the OTS on May 18, 2009 and subsequently administered by the Federal Reserve. This order was terminated by the Federal Reserve effective March 26, 2013.

NOTE 3–BUSINESS COMBINATIONS:

On December 6, 2013, the Company acquired two retail deposit branches and some related assets from AmericanWest Bank, a Washington state-chartered bank. The branches are located on Bainbridge Island and in West Seattle. Deposits with face value of \$32.0 million were acquired for a premium of \$804 thousand.

On November 1, 2013, the Company completed its acquisition of Fortune Bank (“Fortune”) and YNB Financial Services Corp. (“YNB”), the parent of Yakima National Bank. The Company acquired all of the voting equity interests of Fortune Bank and YNB in exchange for cash consideration. Immediately following completion of the acquisitions, YNB was merged into HomeStreet, Inc. Additionally, Fortune Bank and Yakima National Bank were merged into HomeStreet Bank.

The primary objective for the acquisitions is to grow the Company’s Commercial and Consumer Banking business. Additionally, the acquisition of Yakima National Bank expands the Company's geographic footprint, which is consistent with the Company's ongoing growth strategy.

The assets acquired and liabilities assumed in the acquisitions described above have been accounted for under the acquisition method of accounting. The assets and liabilities, both tangible and intangible, were recorded at their estimated fair values as of the acquisition date. The amounts currently recognized in the financial statements for acquired loans and core deposit intangibles have been determined provisionally as the completion of a fair value analysis for these items is still in progress.

The application of the acquisition method of accounting resulted, in the aggregate, in the recognition of goodwill of \$11.6 million and core deposit intangible assets of \$2.3 million. The goodwill represents the excess purchase price over the estimated fair value of the net assets acquired. The goodwill is not deductible for income tax purposes. All of the goodwill has been assigned to the Commercial and Consumer Banking business segment. The acquired core deposit intangibles in the aggregate have been determined to have a weighted-average useful life of approximately 6.4 years and will be amortized on an accelerated basis.

The table below summarizes the aggregate amount recognized as of the acquisition date for each major class of assets acquired and liabilities assumed in the acquisitions of Fortune and YNB on November 1, 2013 and in the acquisition of two retail deposit branches from AmericanWest Bank on December 6, 2013:

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(in thousands)	Year Ended December 31, 2013
Purchase price ⁽¹⁾	\$36,890
Recognized amounts of identifiable assets acquired and (liabilities assumed), at fair value:	
Cash and cash equivalents	60,861
Investment securities	1,241
Acquired loans	206,737
Other real estate owned	740
Federal Home Loan Bank stock, at cost	240
Premises and equipment, net	3,156
Core deposit intangibles	2,317
Accounts receivable and other assets	15,006
Deposits	(261,116)
Accounts payable and accrued expenses	(977)
Long-term debt	(2,954)
Total fair value of identifiable net assets	25,251
Goodwill	\$11,639

(1) The purchase price represents the total amount of cash consideration transferred.

The operating results of the Company include the operating results produced by the acquired assets and assumed liabilities for the period November 1, 2013 to December 31, 2013 for the acquired banks and for the period December 6, 2013 to December 31, 2013 for the two retail deposit branches acquired from AmericanWest Bank.

In connection with the aforementioned acquisitions, HomeStreet recognized \$4.5 million of acquisition-related expenses for the year ended December 31, 2013 as follows:

(in thousands)	Year Ended December 31, 2013
Acquisition-related costs recognized in noninterest expense:	
Salaries and related costs	\$864
General and administrative	206
Legal	407
Consulting	3,007
Federal Deposit Insurance Corporation assessments	15
Occupancy	2
Information services	48
	\$4,549

The table below details the estimated aggregate amount of contractually required payments, contractual cash flows not expected to be collected and cash flows expected to be collected as of the acquisition date on loans acquired in connection with the acquisitions of Fortune and YNB on November 1, 2013 and for the two retail deposit branches acquired from AmericanWest Bank on December 6, 2013:

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(in thousands)	Year Ended December 31, 2013
Contractually required repayments including interest ⁽¹⁾	\$265,215
Less: Contractual cash flows not expected to be collected	(4,646)
Cash flows expected to be collected	\$260,569

(1) Denotes required payments based on a loan's current contractual rate and contractual schedule, assuming no loss or prepayment.

NOTE 4—REGULATORY CAPITAL REQUIREMENTS:

HomeStreet, Inc., as a unitary savings and loan holding company, is not subject to minimum regulatory capital requirements. However, the Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements could initiate certain mandatory and possibly additional discretionary actions by the regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of Total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined in the regulations) and of Tier 1 capital to average assets (as defined in the regulations). The regulators also have the ability to impose elevated capital requirements in certain circumstances. At December 31, 2013 the Bank's capital ratios meet the regulatory capital category of "well capitalized" as defined by the FDIC's prompt corrective action rules.

The Bank's actual capital amounts and ratios are included in the following table:

(in thousands)	At December 31, 2013				To Be Categorized As "Well Capitalized" Under Prompt Corrective Action Provisions		
	Actual		For Minimum Capital Adequacy Purposes		Amount		Ratio
	Amount	Ratio	Amount	Ratio	Amount	Ratio	
Tier 1 leverage capital (to average assets)	\$291,673	9.96	% \$117,182	4.0	% \$146,478	5.0	%
Tier 1 risk-based capital (to risk-weighted assets)	291,673	14.28	81,708	4.0	122,562	6.0	
Total risk-based capital (to risk-weighted assets)	315,762	15.46	163,415	8.0	204,269	10.0	
	At December 31, 2012				To Be Categorized As "Well Capitalized" Under		
	Actual		For Minimum Capital Adequacy Purposes				

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(in thousands)					Prompt Corrective Action Provisions			
	Amount	Ratio	Amount	Ratio	Amount	Ratio		
Tier 1 leverage capital (to average assets)	\$286,963	11.78	% \$97,466	4.0	% \$121,833	5.0		%
Tier 1 risk-based capital (to risk-weighted assets)	286,963	18.05	63,596	4.0	95,394	6.0		
Total risk-based capital (to risk-weighted assets)	306,934	19.31	127,192	8.0	158,991	10.0		

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At periodic intervals, the FDIC and the WDFI routinely examine the Bank's financial statements as part of their legally prescribed oversight of the banking industry. Based on their examinations, these regulators can direct that the Bank's financial statements be adjusted in accordance with their findings.

NOTE 5—INVESTMENT SECURITIES:

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			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Mortgage-backed securities:				
Residential	\$137,602	\$187	\$(3,879)	) \$133,910
Commercial	13,391	45	(3)	) 13,433
Municipal bonds	136,937	185	(6,272)	) 130,850
Collateralized mortgage obligations:				
Residential	93,112	85	(2,870)	) 90,327
Commercial	17,333	—	(488)	) 16,845
Corporate debt securities	75,542	—	(6,676)	) 68,866
U.S. Treasury securities	27,478	1	(27)	) 27,452
	\$501,395	\$503	\$(20,215)	) \$481,683

(in thousands)	At December 31, 2012			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Mortgage-backed securities:				
Residential	\$62,847	\$223	\$(217)	) \$62,853
Commercial	13,720	660	—	) 14,380
Municipal bonds	123,695	5,574	(94)	) 129,175
Collateralized mortgage obligations:				
Residential	163,981	6,333	(115)	) 170,199
Commercial	8,983	60	—	) 9,043
U.S. Treasury securities	30,670	11	(2)	) 30,679
	\$403,896	\$12,861	\$(428)	) \$416,329

Mortgage-backed securities ("MBS") and collateralized mortgage obligations ("CMO") represent securities issued by government sponsored entities ("GSEs"). Each of the MBS and CMO securities in our investment portfolio are guaranteed by Fannie Mae, Ginnie Mae or Freddie Mac. Municipal bonds are comprised of general obligation bonds (i.e., backed by the general credit of the issuer) and revenue bonds (i.e., backed by revenues from the specific project being financed) issued by various municipal corporations. As of December 31, 2013 and 2012, all securities held, including municipal bonds and corporate debt securities, were rated investment grade based upon external ratings where available and, where not available, based upon internal ratings which correspond to ratings as defined by

Standard and Poor's Rating Services ("S&P") or Moody's Investors Services ("Moody's"). As of December 31, 2013 and 2012, substantially all securities held had ratings available by external ratings agencies.

December 31, 2013 and 2012.

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The following tables present the fair value of investment securities available for sale by contractual maturity along with the associated contractual yield for the periods indicated below. Contractual maturities for mortgage-backed securities and collateralized mortgage obligations as presented exclude the effect of expected prepayments. Expected maturities will differ from contractual maturities because borrowers may have the right to prepay obligations before the underlying mortgages mature. The weighted-average yield is computed using the contractual coupon of each security weighted based on the fair value of each security and does not include adjustments to a tax equivalent basis.

At December 31, 2013												
(in thousands)	Within one year		After one year through five years			After five years through ten years		After ten years		Total		Weighted Average Yield
	Fair Value	Weighted Average Yield	Fair Value	Weighted Average Yield	Fair Value	Weighted Average Yield	Fair Value	Weighted Average Yield	Fair Value	Weighted Average Yield		
Mortgage-backed securities:												
Residential	\$—	— %	\$—	— %	\$10,581	1.63 %	\$123,329	1.82 %	\$133,910	1.81 %		
Commercial	—	—	—	—	—	—	13,433	4.51	13,433	4.51		
Municipal bonds	—	—	—	—	19,598	3.51	111,252	4.29	130,850	4.17		
Collateralized mortgage obligations:												
Residential	—	—	—	—	19,987	2.31	70,340	2.17	90,327	2.20		
Commercial	—	—	—	—	5,270	1.90	11,575	1.42	16,845	1.57		
Corporate debt securities	—	—	—	—	32,848	3.31	36,018	3.75	68,866	3.54		
U.S. Treasury securities	1,001	0.18	26,451	0.30	—	—	—	—	27,452	0.29		
Total available for sale	\$1,001	0.18 %	\$26,451	0.30 %	\$88,284	2.84 %	\$365,947	2.92 %	\$481,683	2.75 %		

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

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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 %	

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Sales of investment securities available for sale were as follows.

(in thousands)	Year Ended December 31,		
	2013	2012	2011
Proceeds	\$127,648	\$166,187	\$239,878
Gross gains	2,089	1,921	1,378
Gross losses	(315	) (431	) (276

There were \$47.3 million and \$51.9 million in investment securities pledged to secure advances from the FHLB at December 31, 2013 and December 31, 2012. At December 31, 2013 and 2012, there were \$37.7 million and \$18.6 million, respectively, of securities pledged to secure derivatives in a liability position.

Tax-exempt interest income on securities available for sale totaling \$4.0 million, \$4.3 million, and \$401 thousand for the years ended December 31, 2013, 2012, and 2011, respectively, were recorded in the Company's consolidated statements of operations.

NOTE 6—LOANS AND CREDIT QUALITY:

For a detailed discussion of loans and credit quality, including accounting policies and the methodology used to estimate the allowance for credit losses, see Note 1, Summary of Significant Accounting Policies.

The Company's portfolio of loans held for investment is divided into two portfolio segments, consumer loans and commercial loans, which are the same segments used to determine the allowance for loan losses. Within each portfolio segment, the Company monitors and assesses credit risk based on the risk characteristics of each of the following loan classes: single family and home equity loans within the consumer loan portfolio segment and commercial real estate, multifamily, construction/land development and commercial business loans within the commercial loan portfolio segment.

Loans held for investment consist of the following:

(in thousands)	At December 31,	
	2013	2012
Consumer loans		
Single family	\$904,913	\$673,865
Home equity	135,650	136,746
	1,040,563	810,611
Commercial loans		
Commercial real estate	477,642	361,879
Multifamily	79,216	17,012
Construction/land development	130,465	71,033
Commercial business	171,054	79,576
	858,377	529,500
	1,898,940	1,340,111
Net deferred loan fees and discounts	(3,219	) (3,576
	1,895,721	1,336,535
Allowance for loan losses	(23,908	) (27,561
	\$1,871,813	\$1,308,974

Loans in the amount of \$800.5 million and \$469.8 million at December 31, 2013 and 2012, respectively, were pledged to secure borrowings from the FHLB as part of our liquidity management strategy. The FHLB does not have the right to sell or re-pledge these loans.

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It is the Company's policy to make loans to officers, directors, and their associates in the ordinary course of business on substantially the same terms as those prevailing at the time for comparable transactions with other persons. The following is a summary of activity during the years ended December 31, 2013 and 2012 with respect to such aggregate loans to these related parties and their associates:

(in thousands)	Year Ended December 31,	
	2013	2012
Beginning balance, January 1	\$11,763	\$5,869
New loans	2,178	5,982
Principal repayments and advances, net	(4,203	) (88
Ending balance, December 31	\$9,738	\$11,763

Credit Quality

Management considers the level of allowance for loan losses to be appropriate to cover credit losses inherent within the loans held for investment portfolio as of December 31, 2013. In addition to the allowance for loan losses, the Company maintains a separate allowance for losses related to unfunded loan commitments, and this amount is included in accounts payable and other liabilities on the consolidated statements of financial condition. Collectively, these allowances are referred to as the allowance for credit losses.

For further information on the policies that govern the determination of the allowance for loan losses levels, see Note 1, Summary of Significant Accounting Policies.

Activity in the allowance for credit losses was as follows.

(in thousands)	Year Ended December 31,		
	2013	2012	2011
Allowance for credit losses (roll-forward):			
Beginning balance	\$27,751	\$42,800	\$64,566
Provision for credit losses	900	11,500	3,300
(Charge-offs), net of recoveries	(4,562	) (26,549	) (25,066
Ending balance	\$24,089	\$27,751	\$42,800
Components:			
Allowance for loan losses	\$23,908	\$27,561	\$42,689
Allowance for unfunded commitments	181	190	111
Allowance for credit losses	\$24,089	\$27,751	\$42,800

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Activity in the allowance for credit losses by loan portfolio and loan class was as follows.

(in thousands)	Year Ended December 31, 2013				Ending balance
	Beginning balance	Charge-offs	Recoveries	Provision	
Consumer loans					
Single family	\$13,388	\$(2,967)	) \$536	\$1,033	\$11,990
Home equity	4,648	(1,960)	) 583	716	3,987
	18,036	(4,927)	) 1,119	1,749	15,977
Commercial loans					
Commercial real estate	5,312	(1,448)	) 134	14	4,012
Multifamily	622	—	—	320	942
Construction/land development	1,580	(458)	) 767	(475)	) 1,414
Commercial business	2,201	(21)	) 272	(708)	) 1,744
	9,715	(1,927)	) 1,173	(849)	) 8,112
Total allowance for credit losses	\$27,751	\$(6,854)	) \$2,292	\$900	\$24,089

(in thousands)	Year Ended December 31, 2012				Ending balance
	Beginning balance	Charge-offs	Recoveries	Provision	
Consumer loans					
Single family	\$10,671	\$(5,939)	) \$657	\$7,999	\$13,388
Home equity	4,623	(4,264)	) 631	3,658	4,648
	15,294	(10,203)	) 1,288	11,657	18,036
Commercial loans					
Commercial real estate	4,321	(4,253)	) 259	4,985	5,312
Multifamily	335	—	10	277	622
Construction/land development	21,237	(14,861)	) 1,042	(5,838)	) 1,580
Commercial business	1,613	(558)	) 727	419	2,201
	27,506	(19,672)) 2,038	(157)) 9,715
Total allowance for credit losses	\$42,800	\$(29,875)) \$3,326	\$11,500	\$27,751

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The following table disaggregates our allowance for credit losses and recorded investment in loans by impairment methodology.

(in thousands)	At December 31, 2013			Loans: collectively evaluated for impairment	Loans: individually evaluated for impairment	Total
	Allowance: collectively evaluated for impairment	Allowance: individually evaluated for impairment	Total			
Consumer loans						
Single family	\$10,632	\$1,358	\$11,990	\$831,730	\$73,183	\$904,913
Home equity	3,903	84	3,987	133,006	2,644	135,650
	14,535	1,442	15,977	964,736	75,827	1,040,563
Commercial loans						
Commercial real estate	4,012	—	4,012	445,766	31,876	477,642
Multifamily	515	427	942	76,053	3,163	79,216
Construction/land development	1,414	—	1,414	124,317	6,148	130,465
Commercial business	1,042	702	1,744	168,199	2,855	171,054
	6,983	1,129	8,112	814,335	44,042	858,377
Total	\$21,518	\$2,571	\$24,089	\$1,779,071	\$119,869	\$1,898,940

(in thousands)	At December 31, 2012			Loans: collectively evaluated for impairment	Loans: individually evaluated for impairment	Total
	Allowance: collectively evaluated for impairment	Allowance: individually evaluated for impairment	Total			
Consumer loans						
Single family	\$11,212	\$2,176	\$13,388	\$599,538	\$74,327	\$673,865
Home equity	4,611	37	4,648	133,026	3,720	136,746
	15,823	2,213	18,036	732,564	78,047	810,611
Commercial loans						
Commercial real estate	3,682	1,630	5,312	334,406	27,473	361,879
Multifamily	106	516	622	13,791	3,221	17,012
Construction/land development	1,092	488	1,580	58,129	12,904	71,033
Commercial business	680	1,521	2,201	77,256	2,320	79,576
	5,560	4,155	9,715	483,582	45,918	529,500
Total	\$21,383	\$6,368	\$27,751	\$1,216,146	\$123,965	\$1,340,111

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Impaired Loans

The following tables present impaired loans by loan portfolio segment and loan class.

(in thousands)	At December 31, 2013		
	Recorded investment ⁽¹⁾	Unpaid principal balance ⁽²⁾	Related allowance
With no related allowance recorded:			
Consumer loans			
Single family	\$39,341	\$41,935	\$—
Home equity	1,895	1,968	—
	41,236	43,903	—
Commercial loans			
Commercial real estate	31,876	45,921	—
Multifamily	508	508	—
Construction/land development	6,148	15,299	—
Commercial business	1,533	7,164	—
	40,065	68,892	—
	\$81,301	\$112,795	\$—
With an allowance recorded:			
Consumer loans			
Single family	\$33,842	\$33,900	\$1,358
Home equity	749	749	84
	34,591	34,649	1,442
Commercial loans			
Multifamily	2,655	2,832	427
Commercial business	1,322	1,478	702
	3,977	4,310	1,129
	\$38,568	\$38,959	\$2,571
Total:			
Consumer loans			
Single family ⁽³⁾	\$73,183	\$75,835	\$1,358
Home equity	2,644	2,717	84
	75,827	78,552	1,442
Commercial loans			
Commercial real estate	31,876	45,921	—
Multifamily	3,163	3,340	427
Construction/land development	6,148	15,299	—
Commercial business	2,855	8,642	702
	44,042	73,202	1,129
Total impaired loans	\$119,869	\$151,754	\$2,571

(1) Includes partial charge-offs and nonaccrual interest paid.

(2) Unpaid principal balance does not include partial charge-offs or nonaccrual interest paid. Related allowance is calculated on net book balances not unpaid principal balances.

(3) Includes \$70.3 million in performing TDRs.

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(in thousands)	At December 31, 2012		
	Recorded investment ⁽¹⁾	Unpaid principal balance ⁽²⁾	Related allowance
With no related allowance recorded:			
Consumer loans			
Single family	\$28,202	\$29,946	\$—
Home equity	2,728	3,211	—
	30,930	33,157	—
Commercial loans			
Commercial real estate	10,933	12,445	—
Multifamily	508	508	—
Construction/land development	11,097	20,990	—
Commercial business	147	162	—
	22,685	34,105	—
	\$53,615	\$67,262	\$—
With an allowance recorded:			
Consumer loans			
Single family	\$46,125	\$47,553	\$2,176
Home equity	992	1,142	37
	47,117	48,695	2,213
Commercial loans			
Commercial real estate	16,540	16,540	1,630
Multifamily	2,713	2,891	516
Construction/land development	1,807	1,807	488
Commercial business	2,173	2,287	1,521
	23,233	23,525	4,155
	\$70,350	\$72,220	\$6,368
Total:			
Consumer loans			
Single family ⁽³⁾	\$74,327	\$77,499	\$2,176
Home equity	3,720	4,353	37
	78,047	81,852	2,213
Commercial loans			
Commercial real estate	27,473	28,985	1,630
Multifamily	3,221	3,399	516
Construction/land development	12,904	22,797	488
Commercial business	2,320	2,449	1,521
	45,918	57,630	4,155
Total impaired loans	\$123,965	\$139,482	\$6,368

(1) Includes partial charge-offs and nonaccrual interest paid.

(2) Unpaid principal balance does not include partial charge-offs or nonaccrual interest paid. Related allowance is calculated on net book balances not unpaid principal balances.

(3) Includes \$67.5 million in performing TDRs.

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The following table provides the average recorded investment in impaired loans by portfolio segment and class.

(in thousands)	Year Ended December 31,	
	2013	2012
Consumer loans		
Single family	\$76,910	\$68,439
Home equity	3,204	2,974
	80,114	71,413
Commercial loans		
Commercial real estate	28,595	32,246
Multifamily	3,197	5,854
Construction/land development	8,790	37,506
Commercial business	2,108	1,567
	42,690	77,173
	\$122,804	\$148,586

Credit Quality Indicators

Management regularly reviews loans in the portfolio to assess credit quality indicators and to determine appropriate loan classification and grading in accordance with applicable bank regulations. The Company's internal AQR grading scale is comprised of 10 grades. Each individual loan is given an internal risk rating scale from 1 through 10. A brief description of these grades is as follows:

Pass. We have five pass classification grades which represent a level of credit quality that ranges from no well-defined deficiency or weakness to some noted weakness, however the risk of default on any loan classified as pass is expected to be remote.

Watch. A loan graded as watch has a remote risk of default, but is exhibiting deficiency or weakness that requires monitoring by management.

Special Mention. A special mention loan does not currently expose us to a sufficient degree of risk to warrant an adverse classification, but does possess a correctable deficiency or potential weakness deserving management's close attention.

Substandard. A substandard loan is inadequately protected by the current secured worth and paying capacity of the borrower or of collateral pledged on the loan, if any. Loans so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt, such as a high probability of payment default and are characterized by the distinct possibility that the institution will sustain some loss if deficiencies are not corrected.

Doubtful. A loan classified as doubtful has all of the weaknesses inherent in those classified substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable or improbable. Doubtful is considered to be a temporary classification until resolution of pending weaknesses enables us to more fully evaluate the potential for loss.

Loss. That portion of a loan classified as loss is considered uncollectible and of so little value that its characterization as an asset is not warranted. A loss classification does not mean that an asset has absolutely no recovery or salvage value, but rather it is not reasonable to defer charging off all or that portion of the asset deemed uncollectible even though partial recovery may occur in the future.

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The following tables present designated loan grades by loan portfolio segment and loan class.

(in thousands)	At December 31, 2013				
	Pass	Watch	Special mention	Substandard	Total
Consumer loans					
Single family	\$817,877	\$53,711	\$12,746	\$20,579	\$904,913
Home equity	132,086	1,442	276	1,846	135,650
	949,963	55,153	13,022	22,425	1,040,563
Commercial loans					
Commercial real estate	368,817	63,579	37,758	7,488	477,642
Multifamily	74,509	1,544	3,163	—	79,216
Construction/land development	121,026	3,414	2,895	3,130	130,465
Commercial business	145,760	20,062	586	4,646	171,054
	710,112	88,599	44,402	15,264	858,377
	\$1,660,075	\$143,752	\$57,424	\$37,689	\$1,898,940
(in thousands)	At December 31, 2012				
	Pass	Watch	Special mention	Substandard	Total
Consumer loans					
Single family	\$565,312	\$55,768	\$27,599	\$25,186	\$673,865
Home equity	131,246	1,337	1,193	2,970	136,746
	696,558	57,105	28,792	28,156	810,611
Commercial loans					
Commercial real estate	217,370	102,353	17,931	24,225	361,879
Multifamily	12,222	1,569	3,221	—	17,012
Construction/land development	21,540	7,243	35,368	6,882	71,033
Commercial business	68,134	7,914	462	3,066	79,576
	319,266	119,079	56,982	34,173	529,500
	\$1,015,824	\$176,184	\$85,774	\$62,329	\$1,340,111

The Company considers 'adversely classified assets' to include loans graded as Substandard, Doubtful, and Loss as well as other real estate owned ("OREO"). As of December 31, 2013 and 2012, none of the Company's loans were rated Doubtful or Loss. The total amount of adversely classified assets was \$50.6 million and \$86.3 million as of December 31, 2013 and 2012, respectively.

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Nonaccrual and Past Due Loans

Loans are placed on nonaccrual status when the full and timely collection of principal and interest is doubtful, generally when the loan becomes 90 days or more past due for principal or interest payment or if part of the principal balance has been charged off. Loans whose repayments are insured by the FHA or guaranteed by the VA are generally maintained on accrual status even if 90 days or more past due.

The following table presents an aging analysis of past due loans by loan portfolio segment and loan class.

At December 31, 2013							
(in thousands)	30-59 days past due	60-89 days past due	90 days or more past due	Total past due	Current	Total loans	90 days or more past due and accruing ⁽¹⁾
Consumer loans							
Single family	\$6,466	\$4,901	\$55,672	\$67,039	\$837,874	\$904,913	\$46,811
Home equity	375	75	1,846	2,296	133,354	135,650	—
	6,841	4,976	57,518	69,335	971,228	1,040,563	46,811
Commercial loans							
Commercial real estate	—	—	12,257	12,257	465,385	477,642	—
Multifamily	—	—	—	—	79,216	79,216	—
Construction/land development	—	—	—	—	130,465	130,465	—
Commercial business	—	—	2,743	2,743	168,311	171,054	—
	—	—	15,000	15,000	843,377	858,377	—
	\$6,841	\$4,976	\$72,518	\$84,335	\$1,814,605	\$1,898,940	\$46,811
At December 31, 2012							
(in thousands)	30-59 days past due	60-89 days past due	90 days or more past due	Total past due	Current	Total loans	90 days or more past due and accruing ⁽¹⁾
Consumer loans							
Single family	\$11,916	\$4,732	\$53,962	\$70,610	\$603,255	\$673,865	\$40,658
Home equity	787	242	2,970	3,999	132,747	136,746	—
	12,703	4,974	56,932	74,609	736,002	810,611	40,658
Commercial loans							
Commercial real estate	—	—	6,403	6,403	355,476	361,879	—
Multifamily	—	—	—	—	17,012	17,012	—
Construction/land development	—	—	5,042	5,042	65,991	71,033	—
Commercial business	—	—	2,173	2,173	77,403	79,576	—
	—	—	13,618	13,618	515,882	529,500	—
	\$12,703	\$4,974	\$70,550	\$88,227	\$1,251,884	\$1,340,111	\$40,658

(1) FHA-insured and VA-guaranteed single family loans that are 90 days or more past due are maintained on accrual status if they are determined to have little to no risk of loss.

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The following tables present performing and nonperforming loan balances by loan portfolio segment and loan class.

(in thousands)	At December 31, 2013		
	Accrual	Nonaccrual	Total
Consumer loans			
Single family	\$896,052	\$8,861	\$904,913
Home equity	133,804	1,846	135,650
	1,029,856	10,707	1,040,563
Commercial loans			
Commercial real estate	465,385	12,257	477,642
Multifamily	79,216	—	79,216
Construction/land development	130,465	—	130,465
Commercial business	168,311	2,743	171,054
	843,377	15,000	858,377
	\$1,873,233	\$25,707	\$1,898,940
(in thousands)	At December 31, 2012		
	Accrual	Nonaccrual	Total
Consumer loans			
Single family	\$660,561	\$13,304	\$673,865
Home equity	133,776	2,970	136,746
	794,337	16,274	810,611
Commercial loans			
Commercial real estate	355,476	6,403	361,879
Multifamily	17,012	—	17,012
Construction/land development	65,991	5,042	71,033
Commercial business	77,403	2,173	79,576
	515,882	13,618	529,500
	\$1,310,219	\$29,892	\$1,340,111

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The following tables present information about TDR activity during the periods presented.

(dollars in thousands)	Year Ended December 31, 2013			
	Concession type	Number of loan modifications	Recorded investment	Related charge-offs
Consumer loans				
Single family	Interest rate reduction	104	\$22,605	\$—
		104	22,605	—
Home equity	Interest rate reduction	9	571	—
		9	\$571	—
Total consumer	Interest rate reduction	113	23,176	—
		113	23,176	—
Total loans	Interest rate reduction	113	23,176	—
		113	\$23,176	\$—

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(dollars in thousands)	Year Ended December 31, 2012			
	Concession type	Number of loan modifications	Recorded investment	Related charge-offs
Consumer loans				
Single family				
	Interest rate reduction	84	\$15,487	\$—
	Payment restructure	1	280	—
		85	\$15,767	\$—
Home equity				
	Interest rate reduction	7	\$527	\$—
		7	\$527	\$—
Total consumer				
	Interest rate reduction	91	\$16,014	\$—
	Payment restructure	1	280	—
		92	\$16,294	\$—
Commercial loans				
Commercial real estate				
	Interest rate reduction	2	\$6,070	\$1,000
		2	\$6,070	\$1,000
Construction/land development				
	Forgiveness of principal	2	304	—
		2	\$304	\$—
Total commercial				
	Interest rate reduction	2	\$6,070	\$1,000
	Payment restructure	—	—	—
	Forgiveness of principal	2	304	—
		4	\$6,374	\$1,000
Total loans				
	Interest rate reduction	93	\$22,084	\$1,000
	Payment restructure	1	280	—
	Forgiveness of principal	2	304	—
		96	\$22,668	\$1,000

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(dollars in thousands)	Year Ended December 31, 2011			
	Concession type	Number of loan modifications	Recorded investment	Related charge-offs
Consumer loans				
Single family				
	Interest rate reduction	150	\$41,765	\$—
	Payment restructure	14	2,871	—
		164	\$44,636	\$—
Home equity				
	Interest rate reduction	7	\$472	\$—
	Payment restructure	6	212	—
		13	\$684	\$—
Total consumer				
	Interest rate reduction	157	\$42,237	\$—
	Payment restructure	20	3,083	—
		177	\$45,320	\$—
Commercial loans				
Commercial real estate				
	Payment restructure	1	9,321	—
		1	\$9,321	\$—
Multifamily				
	Interest rate reduction	1	\$508	\$—
		1	\$508	\$—
Construction/land development				
	Interest rate reduction	52	\$13,032	\$866
	Payment restructure	1	2,750	—
	Forgiveness of principal	10	1,395	—
		63	\$17,177	\$866
Commercial business				
	Payment restructure	4	1,060	—
		4	\$1,060	\$—
Total commercial				
	Interest rate reduction	53	\$13,540	\$866
	Payment restructure	6	13,131	—
	Forgiveness of principal	10	1,395	—
		69	\$28,066	\$866
Total loans				
	Interest rate reduction	210	\$55,777	\$866
	Payment restructure	26	16,214	—
	Forgiveness of principal	10	1,395	—
		246	\$73,386	\$866

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The following table presents loans that were modified as TDRs within the previous 12 months and subsequently re-defaulted during the years ended December 31, 2013 and 2012, respectively. A TDR loan is considered re-defaulted when it becomes doubtful that the objectives of the modifications will be met, generally when a consumer loan TDR becomes 60 days or more past due on principal or interest payments or when a commercial loan TDR becomes 90 days or more past due on principal or interest payments.

(dollars in thousands)	Year Ended December 31, 2013		2012	
	Number of loan relationships that subsequently re-defaulted	Recorded investment	Number of loan relationships that subsequently re-defaulted	Recorded investment
Consumer loans				
Single family	17	\$2,840	23	\$8,633
Home equity	1	22	1	34
	18	2,862	24	8,667
Commercial loans				
Commercial real estate	1	770	1	7,716
Commercial business	—	—	1	29
	1	770	2	7,745
	19	\$3,632	26	\$16,412

NOTE 7—OTHER REAL ESTATE OWNED:

Other real estate owned consisted of the following.

(in thousands)	At December 31,	
	2013	2012
Single family	\$5,522	\$4,118
Commercial real estate	958	10,447
Construction/land development	8,128	24,341
	14,608	38,906
Valuation allowance	(1,697)	(14,965)
	\$12,911	\$23,941

Activity in other real estate owned was as follows.

(in thousands)	Year Ended December 31,	
	2013	2012
Beginning balance	\$23,941	\$38,572
Additions	8,199	44,195
Loss provisions	(603)	(12,171)
Reductions related to sales	(18,626)	(46,655)

Ending balance	\$12,911	\$23,941
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Activity in the valuation allowance for other real estate owned was as follows.

(in thousands)	Year Ended December 31,		
	2013	2012	2011
Beginning balance	\$14,965	\$21,502	\$29,099
Loss provisions	603	12,171	27,079
(Charge-offs), net of recoveries	(13,871	) (18,708	) (34,676
Ending balance	\$1,697	\$14,965	\$21,502

The components of other real estate owned expense are as follows.

(in thousands)	Year Ended December 31,		
	2013	2012	2011
Maintenance costs	\$840	\$1,289	\$3,755
Loss provisions	603	12,171	27,079
Net gain on sales	(722	) (2,508	) (190
Gain on transfer	(119	) (489) —
Net operating income (loss)	1,209	(378	) (363
Total other real estate owned expense	\$1,811	\$10,085	\$30,281

At December 31, 2013, we had concentrations within the state of Washington, primarily in Thurston County, representing 70.5% of the total balance of other real estate owned. At December 31, 2012, we had concentrations within the state of Washington representing 92.5% of the total balance of other real estate owned.

NOTE 8—PREMISES AND EQUIPMENT, NET:

Premises and equipment consisted of the following.

(in thousands)	December 31,	
	2013	2012
Furniture and equipment	\$47,247	\$32,279
Leasehold improvements	17,525	10,798
Land and buildings	2,095	—
	66,867	43,077
Less: accumulated depreciation	(30,255	) (27,845
	\$36,612	\$15,232

Depreciation expense for the years ending December 31, 2013, 2012, and 2011, was \$4.6 million, \$2.7 million, and \$2.0 million, respectively.

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NOTE 9–DEPOSITS:

Deposit balances, including stated rates, were as follows.

(in thousands)	At December 31,	
	2013	2012
Noninterest-bearing accounts	\$322,952	\$358,831
NOW accounts, 0.00% to 0.75% at December 31, 2013 and December 31, 2012	297,966	174,699
Statement savings accounts, due on demand, 0.20% to 2.00% at December 31, 2013 and 0.20% to 0.85% at December 31, 2012	156,181	103,932
Money market accounts, due on demand, 0.00% to 1.50% at December 31, 2013 and December 31, 2012	919,322	683,906
Certificates of deposit, 0.10% to 3.80% at December 31, 2013 and 0.10% to 4.70% at December 31, 2012	514,400	655,467
	\$2,210,821	\$1,976,835

There were no public funds included in deposits as of December 31, 2013 and December 31, 2012.

Interest expense on deposits was as follows.

(in thousands)	Year Ended December 31,		
	2013	2012	2011
NOW accounts	\$924	\$498	\$575
Statement savings accounts	546	395	335
Money market accounts	3,899	3,248	3,020
Certificates of deposit	5,047	12,600	20,885
	\$10,416	\$16,741	\$24,815

The weighted-average interest rates on certificates of deposit at December 31, 2013, 2012, and 2011 were 0.71%, 1.59%, and 1.66%, respectively.

Certificates of deposit outstanding mature as follows.

(in thousands)	At December 31, 2013
Within one year	\$398,599
One to two years	48,226
Two to three years	48,345
Three to four years	13,176
Four to five years	6,054
	\$514,400

The aggregate amount of time deposits in denominations of \$100 thousand or more at December 31, 2013 and 2012, was \$216.5 million and \$300.4 million, respectively. The aggregate amount of time deposits in denominations of more than \$250 thousand at December 31, 2013 and 2012 was \$26.3 million and \$45.3 million, respectively. There were \$144.3 million of brokered deposits as of December 31, 2013, and none at December 31, 2012.

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NOTE 10—FEDERAL HOME LOAN BANK AND OTHER:

The Company borrows through advances from the FHLB. FHLB advances totaled \$446.6 million and \$259.1 million as of December 31, 2013, and December 31, 2012, respectively.

Weighted-average interest rates on the advances were 0.43%, 0.60%, and 4.67% at December 31, 2013, 2012 and 2011, respectively. The advances may be collateralized by stock in the FHLB, pledged securities, and unencumbered qualifying loans. The Company has an available line of credit with the FHLB equal to 25 percent of assets, subject to collateralization requirements. Based on the amount of qualifying collateral available, borrowing capacity from the FHLB was \$228.5 million as of December 31, 2013. The FHLB is not contractually bound to continue to offer credit to the Company, and the Company's access to credit from this agency for future borrowings may be discontinued at any time.

FHLB advances outstanding by contractual maturities were as follows.

(in thousands)	At December 31, 2013		
	Advances outstanding	Weighted-average interest rate	
2014	\$431,000	0.27	%
2015	—	—	
2016	—	—	
2017	—	—	
2018 and thereafter	15,590	4.64	
	\$446,590	0.43	%

The Company, as a member of the FHLB, is required to own shares of FHLB stock. This requirement is based upon the amount of either the eligible collateral or advances outstanding from the FHLB. As of December 31, 2013 and 2012, the Company held \$35.3 million and \$36.4 million, respectively, of FHLB stock. FHLB stock is carried at par value and is restricted to transactions between the FHLB and its member institutions. FHLB stock can only be purchased or redeemed at par value. Both cash and dividends received on FHLB stock are reported in earnings.

On November 6, 2009, the Federal Housing Finance Agency (the "Finance Agency") regulator reaffirmed its capital classification of the FHLB as undercapitalized. Under the Finance Agency regulations, a FHLB that fails to meet any regulatory capital requirement may not declare a dividend or redeem or repurchase capital stock. As such, the FHLB will not be able to redeem, repurchase, or declare dividends on stock outstanding while the risk-based capital deficiency exists. In September 2012, the Finance Agency reclassified the FHLB as adequately capitalized but the FHLB remained subject to the Consent Order. On November 22, 2013, the Finance Agency issued an amended Consent Order, which modifies and supersedes the October 2010 Consent Order. The amended Consent Order acknowledges the FHLB's fulfillment of many of the requirements set forth in the 2010 Consent Order and improvements in the 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.

At December 31, 2013, there has been no change in the restrictions regarding the FHLB's ability to redeem, repurchase or declare dividends on stock outstanding.

Management periodically evaluates FHLB stock for other-than-temporary impairment. Management's determination of whether these investments are impaired is 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 FHLB as compared to the capital stock amount for the FHLB and the length of time this situation has persisted; (2) commitments by the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance of the FHLB; (3) the impact of legislative and regulatory changes on institutions and, accordingly, on the customer base of the FHLB; and (4) the liquidity position of the FHLB. Based on this evaluation, the Company determined there is not an other-than-temporary impairment of the FHLB stock investment as of December 31, 2013, or 2012.

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The Company may also borrow on a collateralized basis from the Federal Reserve Bank of San Francisco ("FRBSF"). At December 31, 2013 and 2012, there were no outstanding borrowings from the FRBSF. Based on the amount of qualifying collateral available, borrowing capacity from the FRBSF was \$332.7 million at December 31, 2013. The FRB of San Francisco is not contractually bound to offer credit to the Company, and the Company's access to credit from this agency for future borrowings may be discontinued at any time.

NOTE 11—LONG-TERM DEBT:

The Company raised capital by issuing trust preferred securities ("TruPS") during the period from 2005 through 2007, resulting in a debt balance of \$61.9 million at December 31, 2012. We acquired \$3.1 million of TruPS debt through the acquisition of YNB in 2013, bringing our total TruPS long-term debt to \$64.8 million which remains outstanding at December 31, 2013. In connection with the issuance of TruPS, HomeStreet, Inc. issued to HomeStreet Statutory Trust Junior Subordinated Deferrable Interest Debentures and YNB had issued Yakima Statutory Trust Debentures (collectively, the "Subordinated Debt Securities").

The Subordinated Debt Securities are as follows:

(in thousands)	HomeStreet Statutory				Yakima Statutory
	I	II	III	IV	I
Date issued	June 2005	September 2005	February 2006	March 2007	May 2007
Amount	\$5,155	\$20,619	\$20,619	\$15,464	\$3,093
Interest rate	3 MO LIBOR + 1.70%	3 MO LIBOR + 1.50%	3 MO LIBOR + 1.37%	3 MO LIBOR + 1.68%	6.88%
Maturity date	June 2035	December 2035	March 2036	June 2037	June 2037
Call option ⁽¹⁾	5 years	5 years	5 years	5 years	5 years

(1) Call options are exercisable at par.

Following the first call date, the HomeStreet Statutory TruPS debt adjusts quarterly with the change in the three-month LIBOR rate. The sole assets of the HomeStreet Statutory Trust are the Subordinated Debt Securities I, II, III, and IV.

The sole assets of the Yakima Statutory TruPS are the Subordinated Debt Securities I.

The Company deferred the payment of interest on its outstanding TruPS from December 15, 2008 until March 15, 2013, when all deferred and current interest owed on our outstanding TruPS was paid.

During 2011, we recorded a gain on debt extinguishment of \$2.0 million upon the early retirement of senior debt, which totaled \$5.0 million and was settled for \$3.0 million.

NOTE 12—DERIVATIVES AND HEDGING ACTIVITIES:

In order to reduce the risk of significant interest rate fluctuations on the value of certain assets and liabilities, such as certain mortgage loans held for sale or mortgage servicing rights ("MSRs"), the Company utilizes derivatives, such as forward sale commitments, futures, option contracts, interest rate swaps and swaptions as risk management instruments in its hedging strategy. Derivative transactions are measured in terms of notional amount, which is not recorded in the consolidated statements of financial condition. The notional amount is generally not exchanged and is used as the basis for interest and other contractual payments.

The use of derivatives as interest rate risk management instruments helps minimize significant, unplanned fluctuations in earnings, fair value of assets and liabilities, and cash flows caused by interest rate volatility. This approach involves mitigating the repricing characteristics of certain assets or liabilities so that changes in interest rates do not have a significant adverse effect on net interest margin and cash flows. As a result of interest rate fluctuations, hedged assets and liabilities will gain or lose market value. In a fair value hedging strategy, the effect of this gain or loss will generally be offset by the gain or loss on the derivatives linked to hedged assets or liabilities. In a cash flow hedging strategy, management manages the variability of cash payments due to interest rate fluctuations by the effective use of derivatives linked to hedged assets and liabilities. We held no derivatives designated as a cash flow or foreign currency hedge instrument at December 31, 2013 or 2012. Derivatives are

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reported at their respective fair values in the accounts receivable and other assets or accounts payable and other liabilities line items on the consolidated statements of financial condition, with changes in fair value reflected in current period earnings.

As permitted under U.S. GAAP, the Company nets derivative assets and liabilities when a legally enforceable master netting agreement exists between the Company and the derivative counterparty, which are documented under industry standard master agreements and credit support annexes. The Company's master netting agreements provide that following an uncured payment default or other event of default the non-defaulting party may promptly terminate all transactions between the parties and determine a net amount due to be paid to, or by, the defaulting party. An event of default may also occur under a credit support annex if a party fails to make a collateral delivery (which remains uncured following applicable notice and grace periods). The Company's right of offset requires that master netting agreements are legally enforceable and that the exercise of rights by the non-defaulting party under these agreements will not be stayed, or avoided under applicable law upon an event of default including bankruptcy, insolvency or similar proceeding.

The collateral used under the Company's master netting agreements is typically cash, but securities may be used under agreements with certain counterparties. Receivables related to cash collateral that has been paid to counterparties is included in accounts receivable and other assets on the Company's consolidated statements of financial condition. Any securities pledged to counterparties as collateral remain on the consolidated statement of financial condition. Refer to Note 5, Investment Securities of this Form 10-K for further information on securities collateral pledged. At December 31, 2013 and 2012, the Company did not hold any collateral received from counterparties under derivative transactions.

The Company's derivative activities are monitored by the asset/liability management committee. The treasury function, which includes asset/liability management, is responsible for hedging strategies developed through analysis of data from financial models and other internal and industry sources. The resulting hedging strategies are incorporated into the overall risk management strategies.

For further information on the policies that govern derivative and hedging activities, see Note 1, Summary of Significant Accounting Policies of this form 10-K.

The notional amounts and fair values for derivatives consist of the following:

(in thousands)	At December 31, 2013		
	Notional amount	Fair value derivatives	
		Asset	Liability
Forward sale commitments	\$526,382	\$3,630	\$(578)
Interest rate swaptions	110,000	858	(199)
Interest rate lock commitments	261,070	6,012	(40)
Interest rate swaps	508,004	1,088	(9,548)
Total derivatives before netting	\$1,405,456	\$11,588	\$(10,365)
Netting adjustments ⁽¹⁾		(1,363)	) 1,363
Carrying value on consolidated statements of financial position		\$10,225	\$(9,002)

(in thousands)	At December 31, 2012		
	Notional amount	Fair value derivatives	
		Asset	Liability

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Forward sale commitments	\$1,258,152	\$621	\$(2,743)
Interest rate lock commitments	734,762	22,548	(20)
Interest rate swaps	361,892	538	(9,358)
Total derivatives before netting	\$2,354,806	\$23,707	\$(12,121)
Netting adjustments		(1,052	) 1,052	
Carrying value on consolidated statements of financial position		\$22,655	\$(11,069)

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The following tables present gross and net information about derivative instruments.

(in thousands)	At December 31, 2013					
	Gross fair value	Netting adjustments	Carrying value	Cash collateral paid ⁽¹⁾	Securities pledged	Net amount
Derivative assets:						
Forward sale commitments	\$3,630	\$(33)	\$3,597	\$—	\$—	\$3,597
Interest rate swaps	1,946	(1,330)	616	—	—	616
Total derivatives subject to legally enforceable master netting agreements	5,576	(1,363)	4,213	—	—	4,213
Interest rate lock commitments	6,012	—	6,012	—	—	6,012
Total derivative assets	\$11,588	\$(1,363)	\$10,225	\$—	\$—	\$10,225
Derivative liabilities:						
Forward sale commitments	\$(578 )	) \$33	\$(545 )	) \$115	\$410	\$(20)
Interest rate swaps	(9,747 )	) 1,330	(8,417 )	) 8,376	41	—
Total derivatives subject to legally enforceable master netting agreements	(10,325 )	) 1,363	(8,962 )	) 8,491	451	(20)
Interest rate lock commitments	(40 )	) —	(40 )	) —	—	(40)
Total derivative liabilities	\$(10,365 )	) \$1,363	\$(9,002 )	) \$8,491	\$451	\$(60)

(in thousands)	At December 31, 2012					
	Gross fair value	Netting adjustments	Carrying value	Cash collateral paid ⁽¹⁾	Securities pledged	Net amount
Derivative assets:						
Forward sale commitments	\$621	\$(621)	\$—	\$—	—	\$—
Interest rate swaps	538	(431)	107	—	—	107
Total derivatives subject to legally enforceable master netting agreements	1,159	(1,052)	107	—	—	107
Interest rate lock commitments	22,548	—	22,548	—	—	22,548
Total derivative assets	\$23,707	\$(1,052)	\$22,655	\$—	—	\$22,655
Derivative liabilities:						
Forward sale commitments	\$(2,743 )	) \$621	\$(2,122 )	) \$1,953	—	\$(169)
Interest rate swaps	(9,358 )	) 431	(8,927 )	) 8,927	—	—
Total derivatives subject to legally enforceable master netting agreements	(12,101 )	) 1,052	(11,049 )	) 10,880	—	(169)
Interest rate lock commitments	(20 )	) —	(20 )	) —	—	(20)
Total derivative liabilities	\$(12,121 )	) \$1,052	\$(11,069 )	) \$10,880	—	\$(189)

(1) Excludes cash collateral of \$18.5 million and \$18.0 million at December 31, 2013 and 2012, which predominantly consists of collateral transferred by the Company at the initiation of derivative transactions and held by the

counterparty as security. These amounts were not netted against the derivative receivables and payables, because, at an individual counterparty level, the collateral exceeded the fair value exposure at both December 31, 2013 and 2012.

Management uses derivatives that are designated as qualifying hedge contracts as defined by Accounting Standards Codification (ASC) 815, Derivatives and Hedging, as fair value hedges, which are comprised of interest rate swap contracts. Interest rate swap contracts are used to convert commercial business loans held for investment from fixed to floating rates to

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hedge against exposure to changes in benchmark interest rates. All parts of the gain or loss due to the hedged risk (e.g., fair value changes due to changes in benchmark interest rates) are included in the assessment of hedge effectiveness. These swap contracts are carried at fair value, with the net settlement of the derivatives reported in loans receivable interest income and ineffectiveness for these swap contracts reported in other noninterest income.

For fair value hedging relationships, the dollar-offset method is used to assess hedge effectiveness, both at the inception of the hedging relationship and on an ongoing basis. Hedge effectiveness is evaluated prospectively as well as through retrospective evaluations. For prospective considerations, we develop an expectation that the relationship will be highly effective over future periods. For retrospective evaluations management determines whether the hedging relationship has been highly effective. The dollar-offset method compares the change in the fair value of the hedging instrument with the changes in the fair value of the hedged item attributable to the hedged risk. The results of the dollar-offset method along with other relevant information are the basis for evaluating hedge effectiveness prospectively.

The ineffective portion of net gain (loss) on derivatives in fair value hedging relationships, recognized in other noninterest income on the consolidated statements of operations, for loans held for investment were \$151 thousand and \$114 thousand for the years ended December 31, 2013 and 2012, respectively.

Free-standing derivatives are also used for fair value interest rate risk management purposes that do not qualify for hedge accounting treatment, referred to as economic hedges. Economic hedges are used to hedge against adverse changes in fair value of single family mortgage servicing rights (“single family MSR”), interest rate lock commitments (“IRLCs”) for single family mortgage loans that the Company intends to sell, and single family mortgage loans held for sale.

Free-standing derivatives used as economic hedges for single family MSR typically include positions in interest rate futures, options on 10-year treasury contracts, forward sales commitments on mortgage-backed securities, and interest rate swap and swaption contracts. The single family MSR and the free-standing derivatives are carried at fair value with changes in fair value included in mortgage servicing income.

The free-standing derivatives used as economic hedges for IRLCs and single family mortgage loans held for sale are forward sales commitments on mortgage-backed securities and option contracts. IRLCs, single family mortgage loans held for sale, and the free-standing derivatives (“economic hedges”) are carried at fair value with changes in fair value included in net gain (loss) on mortgage loan origination and sale activities.

The following table presents the net gain (loss) recognized on derivatives, including economic hedge derivatives, within the respective line items in the statement of operations for the periods indicated.

(in thousands)	Year Ended December 31,		
	2013	2012	2011
Recognized in noninterest income:			
Net gain (loss) on mortgage loan origination and sale activities ⁽¹⁾	\$12,904	\$(14,382)	\$(15,260)
Mortgage servicing income ⁽²⁾	(20,432)	) 21,982	53,418
	\$(7,528)	) \$7,600	\$38,158

(1) Comprised of IRLCs and forward contracts used as an economic hedge of IRLCs and single family mortgage loans held for sale.

(2) Comprised of interest rate swaps, interest rate swaptions and forward contracts used as an economic hedge of single family mortgage servicing rights MSR.

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NOTE 13—MORTGAGE BANKING OPERATIONS:

Loans held for sale consisted of the following.

(in thousands)	At December 31,	
	2013	2012
Single family	\$279,385	\$607,578
Multifamily	556	13,221
	\$279,941	\$620,799

Loans sold consisted of the following.

(in thousands)	Year Ended December 31,		
	2013	2012	2011
Single family	\$4,733,473	\$4,170,840	\$1,739,220
Multifamily	104,016	118,805	119,477
	\$4,837,489	\$4,289,645	\$1,858,697

Net gain on mortgage loan origination and sale activities, including the effects of derivative risk management instruments, consisted of the following.

(in thousands)	Year Ended December 31,		
	2013	2012	2011
Single family:			
Servicing value and secondary market gains ⁽¹⁾	\$128,391	\$175,655	\$33,523
Loan origination and funding fees	30,051	30,037	11,946
Total single family	158,442	205,692	45,469
Multifamily	5,306	4,872	2,998
Other	964	—	—
Total net gain on mortgage loan origination and sale activities	\$164,712	\$210,564	\$48,467

Comprised of gains and losses on interest rate lock commitments (which considers the value of servicing), single (1)family loans held for sale, forward sale commitments used to economically hedge secondary market activities, and changes in the Company's repurchase liability for loans that have been sold.

The Company's portfolio of loans serviced for others is primarily comprised of loans held in U.S. government and agency MBS issued by Fannie Mae, Freddie Mac and Ginnie Mae. Loans serviced for others are not included in the consolidated statements of financial condition as they are not assets of the Company. The composition of loans serviced for others is presented below at the unpaid principal balance.

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(in thousands)	At December 31,	
	2013	2012
Single family		
U.S. government and agency	\$11,467,853	\$8,508,458
Other	327,768	362,230
	11,795,621	8,870,688
Commercial		
Multifamily	720,429	727,118
Other	95,673	53,235
	816,102	780,353
Total loans serviced for others	\$12,611,723	\$9,651,041

The Company has made representations and warranties that the loans sold meet certain requirements. The Company may be required to repurchase mortgage loans or indemnify loan purchasers due to defects in the origination process of the loan, such as documentation errors, underwriting errors and judgments, appraisal errors, early payment defaults and fraud. For further information on the Company's mortgage repurchase liability, see Note 14, Commitments, Guarantees and Contingencies. The following is a summary of changes in the Company's liability for estimated mortgage repurchase losses.

(in thousands)	Year Ended December 31,	
	2013	2012
Balance, beginning of year	\$1,955	\$471
Additions ⁽¹⁾	1,828	4,317
Realized losses ⁽²⁾	(2,523	) (2,833
Balance, end of year	\$1,260	\$1,955

(1) Includes additions for new loan sales and changes in estimated probable future repurchase losses on previously sold loans.

(2) Includes principal losses and accrued interest on repurchased loans, "make-whole" settlements, settlements with claimants and certain related expense.

Advances are made to Ginnie Mae mortgage pools for delinquent loan payments. We also fund foreclosure costs and we repurchase loans from Ginnie Mae mortgage pools prior to recovery of guaranteed amounts. Ginnie Mae advances of \$7.1 million and \$5.9 million were recorded in accounts receivable and other assets as of December 31, 2013, and December 31, 2012, respectively.

When the Company has the unilateral right to repurchase Ginnie Mae pool loans it has previously sold (generally loans that are more than 90 days past due), the Company then records the loan on its consolidated statement of financial condition. At December 31, 2013 and 2012, delinquent or defaulted mortgage loans currently in Ginnie Mae pools that the Company has recognized on its consolidated statement of financial condition totaled \$14.3 million and \$8.0 million, respectively, with a corresponding amount recorded within accounts payable and other liabilities on the consolidated statements of financial condition. The recognition of previously sold loans does not impact the accounting for the previously recognized MSRs.

Revenue from mortgage servicing, including the effects of derivative risk management instruments, consisted of the following.

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(in thousands)	Year Ended December 31,		
	2013	2012	2011
Servicing income, net:			
Servicing fees and other	\$34,173	\$27,833	\$26,125
Changes in fair value of single family MSR due to modeled amortization ⁽¹⁾	(20,533	) (20,662	) (14,435
Amortization of multifamily MSR	(1,803	) (2,014	) (1,487
	11,837	5,157	10,203
Risk management, single family MSR:			
Changes in fair value due to changes in model inputs and/or assumptions ⁽²⁾	25,668	(11,018	) (25,565
Net gain from derivatives economically hedging MSR	(20,432	) 21,982	53,418
	5,236	10,964	27,853
Mortgage servicing income	\$17,073	\$16,121	\$38,056

(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.

All MSR are initially measured and recorded at fair value at the time loans are sold. Single family MSR are subsequently carried at fair value with changes in fair value reflected in earnings in the periods in which the changes occur, while multifamily MSR are subsequently carried at the lower of amortized cost or fair value.

The fair value of MSR is determined based on the price that would be received to sell the MSR in an orderly transaction between market participants at the measurement date. The Company determines fair value using a valuation model that calculates the net present value of estimated future cash flows. Estimates of future cash flows include contractual servicing fees, ancillary income and costs of servicing, the timing of which are impacted by assumptions, primarily expected prepayment speeds and discount rates, which relate to the underlying performance of the loans.

The initial fair value measurement of MSR is adjusted up or down depending on whether the underlying loan pool interest rate is at a premium, discount or par. Key economic assumptions used in measuring the initial fair value of capitalized single family MSR were as follows.

(rates per annum) ⁽¹⁾	Year Ended December 31,		
	2013	2012	2011
Constant prepayment rate ⁽²⁾	9.28	% 11.64	% 12.21
Discount rate	10.25	% 10.28	% 10.35

(1) Weighted average rates for sales during the period for sales of loans with similar characteristics.

(2) Represents the expected lifetime average.

Key economic assumptions and the sensitivity of the current fair value for single family MSR to immediate adverse changes in those assumptions were as follows.

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(in thousands)	At December 31, 2013	
Fair value of single family MSR	\$ 153,128	
Expected weighted-average life (in years)	7.13	
Constant prepayment rate ⁽¹⁾	10.27	%
Impact on fair value of 25 basis adverse change	\$(5,031)
Impact on fair value of 50 basis adverse change	\$(11,112)
Discount rate	10.50	%
Impact on fair value of 100 basis points increase	\$(5,861)
Impact on fair value of 200 basis points increase	\$(11,303)

(1) Represents the expected lifetime average.

These sensitivities are hypothetical and should be used with caution. As the table above demonstrates, the Company's methodology for estimating the fair value of MSR is highly sensitive to changes in key assumptions. For example, actual prepayment experience may differ and any difference may have a material effect on MSR fair value. Changes in fair value resulting from changes in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. Also, in this table, the effect of a variation in a particular assumption on the fair value of the MSR is calculated without changing any other assumption; in reality, changes in one factor may be associated with changes in another (for example, decreases in market interest rates may provide an incentive to refinance; however, this may also indicate a slowing economy and an increase in the unemployment rate, which reduces the number of borrowers who qualify for refinancing), which may magnify or counteract the sensitivities. Thus, any measurement of MSR fair value is limited by the conditions existing and assumptions made as of a particular point in time. Those assumptions may not be appropriate if they are applied to a different point in time.

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The changes in single family MSR measured at fair value are as follows.

(in thousands)	At December 31,		
	2013	2012	2011
Beginning balance	\$87,396	\$70,169	\$81,197
Originations	60,576	48,839	28,885
Purchases	21	68	87
Changes due to modeled amortization ⁽¹⁾	(20,533	) (20,662	) (14,435
Net additions and amortization	40,064	28,245	14,537
Changes in fair value due to changes in model inputs and/or assumptions ⁽²⁾	25,668	(11,018	) (25,565
Ending balance	\$153,128	\$87,396	\$70,169

(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.

MSRs resulting from the sale of multifamily loans are subsequently carried at the lower of amortized cost or fair value. Multifamily MSR are recorded at fair value and are amortized in proportion to, and over, the estimated period the net servicing income will be collected.

The changes in multifamily MSR measured at the lower of amortized cost or fair value were as follows.

(in thousands)	December 31,		
	2013	2012	2011
Beginning balance	\$8,097	\$7,112	\$6,035
Origination	3,027	2,999	2,564
Amortization	(1,789	) (2,014	) (1,487
Ending balance	\$9,335	\$8,097	\$7,112

At December 31, 2013, the expected weighted-average life of the Company's multifamily MSR was 9.07 years. Projected amortization expense for the gross carrying value of multifamily MSR is estimated as follows.

(in thousands)	At December 31, 2013
2014	\$1,614
2015	1,450
2016	1,336
2017	1,213
2018	1,056
2019 and thereafter	2,666
Carrying value of multifamily MSR	\$9,335

The projected amortization expense of multifamily MSR is an estimate and should be used with caution. The amortization expense for future periods was calculated by applying the same quantitative factors, such as actual MSR

prepayment experience and discount rates, which were used to determine amortization expense. These factors are inherently subject to significant fluctuations, primarily due to the effect that changes in interest rates may have on expected loan prepayment experience. Accordingly, any projection of MSR amortization in future periods is limited by the conditions that existed at the time the calculations were performed and may not be indicative of actual amortization expense that will be recorded in future periods.

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NOTE 14—COMMITMENTS, GUARANTEES, AND CONTINGENCIES:

Commitments

Commitments to extend credit are agreements to lend to customers in accordance with predetermined contractual provisions. These commitments may be for specific periods or contain termination clauses and may require the payment of a fee by the borrower. The total amounts of unused commitments do not necessarily represent future credit exposure or cash requirements in that commitments may expire without being drawn upon.

The Company makes certain unfunded loan commitments as part of its lending activities that have not been recognized in the Company's financial statements. These include commitments to extend credit made as part of the Company's mortgage lending activities and interest rate lock commitments on loans the Company intends to hold in its loans held for investment portfolio. The aggregate amount of these unrecognized unfunded loan commitments existing at December 31, 2013 and December 31, 2012 was \$18.4 million and \$76.8 million, respectively.

In the ordinary course of business, the Company extends secured and unsecured open-end loans to meet the financing needs of its customers. These commitments, which primarily related to unused home equity and business banking funding lines, totaled \$154.0 million and \$91.1 million at December 31, 2013 and December 31, 2012, respectively. Undistributed construction loan commitments, where the Company has an obligation to advance funds for construction progress payments, were \$168.5 million and \$34.5 million at December 31, 2013 and December 31, 2012, respectively. The Company has recorded an allowance for credit losses on loan commitments, included in accounts payable and other liabilities on the consolidated statements of financial condition, of \$181 thousand and \$190 thousand at December 31, 2013 and December 31, 2012, respectively.

The Company is obligated under non-cancelable leases for office space. Generally, the office leases also contain five-year renewal and space options. Rental expense under non-cancelable operating leases totaled \$11.4 million, \$7.1 million, and \$5.7 million for the years ended December 31, 2013, 2012, and 2011, respectively.

Minimum rental payments for all non-cancelable leases were as follows.

(in thousands)	At December 31, 2013
2014	\$11,856
2015	12,062
2016	11,371
2017	10,478
2018	3,943
2019 and thereafter	4,115
	\$53,825

Guarantees

In the ordinary course of business, the Company sells multifamily loans through the Fannie Mae Multifamily Delegated Underwriting and Servicing Program ("DUS[®]") that are subject to a credit loss sharing arrangement. The Company services the loans for Fannie Mae and shares in the risk of loss with Fannie Mae under the terms of the DUS contracts. Under the program, the DUS lender is contractually responsible for the first 5% of losses and then shares equally in the remainder of losses with Fannie Mae with a maximum lender loss of 20% of the original principal balance of each DUS loan. For loans that have been sold through this program, a liability is recorded for this loss sharing arrangement under the accounting guidance for guarantees. As of December 31, 2013 and December 31, 2012, the total unpaid principal balance of loans sold under this program was \$720.4 million and \$727.1 million,

respectively. The Company's reserve liability related to this arrangement totaled \$2.0 million and \$3.3 million at December 31, 2013 and 2012, respectively. There were no actual losses incurred under this arrangement during the years ended December 31, 2013, 2012, and 2011.

Mortgage repurchase liability

In the ordinary course of business, the Company sells residential mortgage loans to GSEs that include the mortgage loans in GSE-guaranteed mortgage securitizations. In addition, the Company sells FHA-insured and VA-guaranteed mortgage loans that are sold to Ginnie Mae and are used to back Ginnie Mae-guaranteed securities. The Company has made representations and

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warranties that the loans sold meet certain requirements. The Company may be required to repurchase mortgage loans or indemnify loan purchasers due to defects in the origination process of the loan, such as documentation errors, underwriting errors and judgments, early payment defaults and fraud.

These obligations expose the Company to any credit loss on the repurchased mortgage loans after accounting for any mortgage insurance that it may receive. Generally, the maximum amount of future payments the Company would be required to make for breaches of these representations and warranties would be equal to the unpaid principal balance of such loans that are deemed to have defects that were sold to purchasers plus, in certain circumstances, accrued and unpaid interest on such loans and certain expenses.

The Company does not typically receive repurchase requests from Ginnie Mae, FHA or VA. As an originator of FHA-insured or VA-guaranteed loans, the Company is responsible for obtaining the insurance with FHA or the guarantee with the VA. If loans are later found not to meet the requirements of FHA or VA, through required internal quality control reviews or through agency audits, the Company may be required to indemnify FHA or VA against losses. The loans remain in Ginnie Mae pools unless and until they are repurchased by the Company. In general, once a FHA or VA loan becomes 90 days past due, the Company repurchases the FHA or VA residential mortgage loan to minimize the cost of interest advances on the loan. If the loan is cured through borrower efforts or through loss mitigation activities, the loan may be resold into a Ginnie Mae pool. The Company's liability for mortgage loan repurchase losses incorporates probable losses associated with such indemnification.

The total unpaid principal balance of loans sold that were subject to the terms and conditions of these representations and warranties totaled \$11.89 billion and \$8.92 billion as of December 31, 2013 and 2012, respectively. At December 31, 2013 and 2012, the Company had recorded a mortgage repurchase liability, included in accounts payable and other liabilities on the consolidated statements of financial condition, of \$1.3 million and \$2.0 million, respectively. The Company's mortgage repurchase liability reflects management's estimate of losses for loans for which we could have a repurchase obligation. Actual repurchase losses of \$2.5 million, \$2.8 million and \$826 thousand were incurred for the years ended December 31, 2013, 2012, and 2011, respectively.

Contingencies

In the normal course of business, the Company may have various legal claims and other similar contingent matters outstanding for which a loss may be realized. For these claims, the Company establishes a liability for contingent losses when it is probable that a loss has been incurred and the amount of loss can be reasonably estimated. For claims determined to be reasonably possible but not probable of resulting in a loss, there may be a range of possible losses in excess of the established liability. At December 31, 2013, we reviewed our legal claims and determined that there were no claims that are considered to be probable or reasonably possible of resulting in a loss. As a result, the Company did not have any amounts reserved for legal claims as of December 31, 2013.

NOTE 15—INCOME TAXES:

Income tax expense (benefit) consisted of following:

(in thousands)	Year Ended December 31,			
	2013	2012	2011	
Current (benefit) expense	\$ (21,166	) \$ 26,656	\$ (198)
Deferred expense (benefit)	32,151	(5,110) (16)
Total income tax expense	\$ 10,985	\$ 21,546	\$ (214)

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Income tax expense differed from amounts computed at the federal income tax statutory rate as follows:

(in thousands)	Year Ended December 31,		
	2013	2012	2011
Income taxes at statutory rate	\$12,178	\$36,285	\$5,567
Tax-exempt interest	(1,452	) (1,162	) (235
State income tax expense net of federal tax benefit	148	333	68
Valuation allowance	—	(14,423	) (5,475
Tax credits	(293) —	—
Other, net	404	513	(139
Total income tax expense	\$10,985	\$21,546	\$(214

Deferred income taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and those amounts used for tax return purposes. The tax effect of temporary differences that give rise to significant portions of deferred tax assets and deferred tax liabilities consisted of the following:

(in thousands)	At December 31,	
	2013	2012
Deferred tax assets:		
Provision for loan losses	\$11,165	\$12,948
Net operating loss and built-in loss carryforwards	17,201	14,577
Other real estate owned	977	5,674
Accrued liabilities	1,975	2,768
Other investments	326	315
Leases	1,018	745
Unrealized gain on investment securities available for sale	7,051	—
Tax credits	2,443	1,148
Other, net	665	379
	42,821	38,554
Valuation allowance	—	—
	42,821	38,554
Deferred tax liabilities:		
Mortgage servicing rights	(48,402	) (26,062
Unrealized gain on investment securities available for sale	—	(4,356
FHLB dividends	(4,310	) (4,491
Deferred loan fees and costs	(2,290	) (2,100
Premises and equipment	(859	) (1,134
Other, net	(760	) (302
	(56,621	) (38,445
Net deferred tax (liability) asset	\$(13,800	) \$109

Net deferred tax assets are included in the accounts receivable and other assets line item within the consolidated statements of financial condition. Net deferred tax liabilities are included in accounts payable and other liabilities on the consolidated statements of financial condition.

As a consequence of our initial public offering in February 2012, the Company experienced a change of control within the meaning of Section 382 of the Internal Revenue Code of 1986, as amended. Section 382 substantially limits the ability of a

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corporate taxpayer to use recognized built-in losses and net operating loss carryforwards incurred prior to the change of control against income earned after a change of control. Based on our analysis, the change of control will not result in a loss of deferred tax benefits other than a small impact on deferred tax assets related to state income taxes in Oregon.

Management assesses the available positive and negative evidence to estimate if sufficient future taxable income will be generated to utilize the existing deferred tax assets. During the second quarter of 2012, management analyzed the positive and negative evidence which included the Company reporting its fifth consecutive quarter of profitability, the future reversals of deferred tax assets and deferred tax liabilities over a similar period of time, future expectations of profitability, significant improvement in overall asset quality and related credit/risk metrics and the expectation that we will be able to exit a three-year cumulative pre-tax loss position in 2012. Based on these factors, we determined as of December 31, 2013 that sufficient objective positive evidence existed to support the future utilization of the deferred tax assets.

At December 31, 2013, the Company has federal net operating loss carryforwards totaling \$27.4 million, which expire between 2024 and 2031. The Company has a Section 382 recognized built-in loss carryforwards of \$20.0 million as of December 31, 2013 which expires in 2032. In addition, as of December 31, 2013, the Company has an alternative minimum tax credit of \$2.4 million that may be carried forward indefinitely. The Company also has state net operating loss carryforwards of \$67.3 million that expire between 2014 and 2024.

Retained earnings at December 31, 2013 and 2012 include approximately \$12.7 million in tax basis bad debt reserves for which no income tax liability has been recorded. In the future, if this tax basis bad debt reserve is used for purposes other than to absorb bad debts or the Company no longer qualifies as a bank, the Company will incur a federal tax liability at the then prevailing corporate tax rate estimated at \$4.4 million as of December 31, 2013.

There were no unrecognized tax benefits at December 31, 2013 and 2012. The Company does not anticipate a significant increase with respect to its unrecognized tax benefits within the next twelve months.

The Company's income tax returns are open for examination for the tax years 2009 through 2013.

NOTE 16—401(k) SAVINGS AND EMPLOYEE STOCK OWNERSHIP PLAN:

The Company maintains a 401(k) Savings and Employee Stock Ownership Plan (the "Plan") for the benefit of its employees. Effective January 1, 2011, the employee stock ownership plan portion of the Plan became a separate plan named the HomeStreet, Inc. Employee Stock Ownership Plan and Trust (the "ESOP"). Net assets of approximately \$6.7 million were transferred from the Plan to the ESOP. The Plan was renamed the HomeStreet, Inc. 401(k) Savings Plan. The ESOP and 401(k) Savings Plan covers substantially all employees of the Company after completion of the required length of service and provides for payment of retirement benefits to employees pursuant to the provisions of the plans. Effective July 31, 2012, the ESOP was merged into the Plan.

Prior to September 1, 2012, the Company employer-matching contribution to the 401(k) Savings Plan was 50% of the first 6% of an employee's eligible compensation that was contributed by the employee. Effective September 1, 2012, new employees are automatically enrolled in the 401(k) Savings Plan at a 3% deferral rate unless they elect otherwise. Participants receive a vested employer matching contribution equal to 100% of the first 3% of eligible compensation deferred by the participant and 50% of the next 2% of eligible compensation deferred by the participant.

Salaries and related costs for the years ended December 31, 2013, 2012, and 2011, included employer contributions of \$3.7 million, \$1.4 million and \$707 thousand, respectively.

NOTE 17—SHARE-BASED COMPENSATION PLANS:

For the years ended December 31, 2013, 2012, and 2011, the Company recognized \$1.1 million, \$2.8 million, and \$22 thousand of compensation cost, respectively, for share-based compensation awards.

2010 Equity Incentive Plan

In January 2010, the shareholders approved the Company's 2010 Equity Incentive Plan (the "2010 EIP"). Under the 2010 EIP, all of the Company's officers, employees, directors and/or consultants are eligible to receive awards. Awards that may be granted under the 2010 EIP include incentive stock options, nonqualified stock options, stock appreciation rights, restricted stock awards, restricted stock unit awards, stock bonus awards and incentive bonus awards, or a combination of the foregoing.

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The 2010 ESOP became effective during February 2012, upon the completion of the Company's initial public offering. The maximum amount of HomeStreet, Inc. common stock available for grant under the 2010 EIP is 94,294 as of December 31, 2013.

Under the 2010 EIP, the exercise price of an option may not be less than the fair market value of a share of common stock at the grant date. The options generally vest on a graded schedule from one to five years, depending on the terms of the grant, and generally expire ten years from the grant date.

Nonqualified Stock Options

During the latter part of 2010, nonqualified stock options were granted outside of, but under substantially the same terms as, the 2010 EIP. This issuance was assessed against the maximum number of shares available for grant under the 2010 EIP. This issuance was approved by the Board of Directors and appropriate regulatory agencies and option grants were issued to key senior management personnel.

Upon the successful completion of the initial public offering in February of 2012, nonqualified stock options were granted to key senior management personnel. A summary of changes in nonqualified stock options granted is as follows:

	Number	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value ⁽²⁾ (in thousands)
Options outstanding at December 31, 2012	1,049,366	\$7.66	8.7 years	\$ 18,776
Granted	7,758	22.22	9.4 years	—
Cancelled or forfeited	(27,064)	) 9.79	0.0 years	276
Exercised	(375,844)	) 1.05	6.9 years	7,328
Options outstanding at December 31, 2013	654,216	11.54	8.1 years	5,559
Options that are exercisable and expected to be exercisable ⁽¹⁾	647,421	11.54	8.1 years	5,499
Options exercisable	241,458	\$10.07	7.9 years	\$ 2,398

(1) Adjusted for estimated forfeitures.

(2) Intrinsic value is the amount by which fair value of the underlying stock exceeds the exercise price.

Under this plan, 375,844 options have been exercised during the year ended December 31, 2013, resulting in cash received and related income tax benefits totaling \$395 thousand. As of December 31, 2013, there was \$1.1 million of total unrecognized compensation costs related to stock options. Compensation costs are recognized over the requisite service period, which typically is the vesting period. Unrecognized compensation costs are expected to be recognized over the remaining weighted-average requisite service period of 1.2 years.

As observable market prices are generally not available for estimating the fair value of stock options, an option-pricing model is utilized to estimate fair value. The fair value of the options granted was estimated as of the grant date using a Black-Scholes Merton ("Black-Scholes") model and the assumptions noted in the following table.

Year Ended December 31,		
2013	2012	2011

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Weighted-average fair value per share	\$8.78	\$4.00	\$0.95	
Expected term of the option	6 years	6 years	6 years	
Expected stock price volatility	50.04	% 33.13	% 48.96	%
Annual risk-free interest rate	1.18	% 1.23	% 2.23	%
Expected annual dividend yield	2.03	% 2.26	% —	%

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The weighted-average expected term of approximately six years used to value option awards issued is an estimate based on an expectation that the holders of the stock options, once vested, will exercise them – ultimately reflecting the settlement of all vested options. As the Company does not have historical exercise behavior to reference for these types of options, the Company leveraged the “simplified” method for estimating the expected term of these “plain vanilla” stock options.

When estimating expected volatility and the dividend yield, the Company considered historical data of other similar entities that are publicly traded over a period commensurate with the life of the options. A single median was derived for each input from this population.

Restricted Shares

The Company grants restricted stock awards to key senior management personnel and directors. A summary of changes in the Company's restricted stock awards is as follows.

	Number	Weighted Average Grant Date Fair Value
Restricted shares outstanding at December 31, 2012	35,831	\$14.79
Granted	35,893	20.80
Cancelled or forfeited	(4,239	) 25.22
Vested	(13,534	) 13.75
Restricted shares outstanding at December 31, 2013	53,951	18.18
Nonvested at December 31, 2013	53,951	\$18.18

The Company recognized \$242 thousand in compensation expense for restricted shares during the year ended December 31, 2013. At December 31, 2013, there was \$845 thousand of total unrecognized compensation cost related to nonvested restricted shares. Unrecognized compensation cost is generally expected to be recognized over a weighted average period of 2.6 years. Restricted shares granted to non-employee directors vest one-third at each one year anniversary from the grant date. Restricted shares granted to senior management vest based upon the achievement of certain market conditions. One-third vested when the 30-day rolling average share price exceeded 25% of the grant date fair value; one-third vested when the 30-day rolling average share price exceeded 40% of the grant date fair value; and one-third vested when the 30-day rolling average share price exceeded 50% of the grant date fair value. The Company accrues compensation expense based upon an estimate of the awards' expected vesting period. If a market condition is satisfied prior to the end of the estimated vesting period any unrecognized compensation costs associated with the portion of restricted shares that vested earlier than expected are immediately recognized in earnings.

NOTE 18–FAIR VALUE MEASUREMENT:

The term "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. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. The Company's approach is to maximize the use of observable inputs and minimize the use of unobservable inputs when developing fair value measurements.

Fair Value Hierarchy

A three-level valuation hierarchy has been established under ASC 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.

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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 the Company's assumptions of what market participants would use in pricing the asset or liability.

The Company's policy regarding transfers between levels of the fair value hierarchy is that all transfers are assumed to occur at the end of the reporting period.

Valuation Processes

The Company has various processes and controls in place to ensure that fair value measurements are reasonably estimated. The Finance Committee provides oversight and approves the Company's Asset/Liability Management Policy ("ALMP"). The Company's ALMP governs, among other things, the application and control of the valuation models used to measure fair value. On a quarterly basis, the Company's Asset/Liability Management Committee ("ALCO") and the Finance Committee of the Board review significant modeling variables used to measure the fair value of the Company's financial instruments, including the significant inputs used in the valuation of single family MSRs. 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 Company obtains an MSR valuation from an independent valuation firm monthly to assist with the validation of the fair value estimate and the reasonableness of the assumptions used in measuring fair value.

The Company's real estate valuations are overseen by the Company's appraisal department, which is independent of the Company's lending and credit administration functions. The appraisal department maintains the Company's appraisal policy and recommends changes to the policy subject to approval by the Company's Loan Committee and the Credit Committee of the Board. The Company's appraisals are prepared by independent third-party appraisers and the Company's internal appraisers. Single family appraisals are generally reviewed by the Company's single family loan underwriters. Single family appraisals with unusual, higher risk or complex characteristics, as well as commercial real estate appraisals, are reviewed by the Company's appraisal department.

We obtain pricing from third party service providers for determining the fair value of a substantial portion of our investment securities available for sale. We have processes in place to evaluate such third party pricing services to ensure information obtained and valuation techniques used are appropriate. For fair value measurements obtained from third party services, we monitor and review the results to ensure the values are reasonable and in line with market experience for similar classes of securities. While the inputs used by the pricing vendor in determining fair value are not provided, and therefore unavailable for our review, we do perform certain procedures to validate the values received, including comparisons to other sources of valuation (if available), comparisons to other independent market data and a variance analysis of prices by Company personnel that are not responsible for the performance of the investment securities.

Estimation of Fair Value

Fair value is based on quoted market prices, when available. In cases where a quoted price for an asset or liability is not available, the Company uses valuation models to estimate 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. The Company believes its 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.

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The following table summarizes the fair value measurement methodologies, including significant inputs and assumptions, and classification of the Company's assets and liabilities.

Asset/Liability class	Valuation methodology, inputs and assumptions	Classification
Cash and cash equivalents	Carrying value is a reasonable estimate of fair value based on the short-term nature of the instruments. Observable market prices of identical or similar securities are used where available.	Estimated fair value classified as Level 1.
Investment securities available for sale	If market prices are not readily available, value is based on discounted cash flows using the following significant inputs: <ul style="list-style-type: none"> • Expected prepayment speeds • Estimated credit losses • Market liquidity adjustments 	Level 2 recurring fair value measurement
Loans held for sale	Fair value is based on observable market data, including: <ul style="list-style-type: none"> • Quoted market prices, where available • Dealer quotes for similar loans • Forward sale commitments 	Level 2 recurring fair value measurement
Single-family loans	The sale price is set at the time the loan commitment is made, and as such subsequent changes in market conditions have a very limited effect, if any, on the value of these loans carried on the consolidated statements of financial condition, which are typically sold within 30 days of origination.	Carried at lower of amortized cost or fair value.
Multifamily loans	Estimated fair value classified as Level 2.	
Loans held for investment	Fair value is based on discounted cash flows, which considers the following inputs: <ul style="list-style-type: none"> • Current lending rates for new loans • Expected prepayment speeds • Estimated credit losses • Market liquidity adjustments 	For the carrying value of loans see Note 1—Summary of Significant Accounting Policies.
Loans held for investment, excluding collateral dependent loans	Fair value is based on appraised value of collateral, which considers sales comparison and income approach methodologies. Adjustments are made for various factors, which may include: <ul style="list-style-type: none"> • Adjustments for variations in specific property qualities such as location, physical dissimilarities, 	Estimated fair value classified as Level 3.
Loans held for investment, collateral dependent	Carried at lower of amortized cost or fair value of collateral, less the estimated cost to sell.	

market conditions at the time of sale, income producing characteristics and other factors

- Adjustments to obtain “upon completion” and “upon stabilization” values (e.g., property hold discounts where the highest and best use would require development of a property over time)
- Bulk discounts applied for sales costs, holding costs and profit for tract development and certain other properties

Classified as a Level 3 nonrecurring fair value measurement in periods where carrying value is adjusted to reflect the fair value of collateral.

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Asset/Liability class	Valuation methodology, inputs and assumptions	Classification
Mortgage servicing rights		
Single family MSR	For information on how the Company measures the fair value of its single family MSRs, including key economic assumptions and the sensitivity of fair value to changes in those assumptions, see Note 13, Mortgage Banking Operations.	Level 3 recurring fair value measurement
Multifamily MSR	Fair value is based on discounted estimated future servicing fees and other revenue, less estimated costs to service the loans.	Carried at lower of amortized cost or fair value Estimated fair value classified as Level 3.
Derivatives		
Interest rate swaps	Fair value is based on quoted prices for identical or similar instruments, when available.	
Interest rate swaptions		
Forward sale commitments	When quoted prices are not available, fair value is based on internally developed modeling techniques, which require the use of multiple observable market inputs including: <ul style="list-style-type: none"> • Forward interest rates • Interest rate volatilities The fair value considers several factors including: <ul style="list-style-type: none"> • Fair value of the underlying loan based on quoted prices in the secondary market, when available. • Value of servicing • Fall-out factor 	Level 2 recurring fair value measurement
Interest rate lock commitments		Level 3 recurring fair value measurement effective December 31, 2012. Level 2 recurring fair value measurement prior to December 31, 2012.
Other real estate owned (“OREO”)	Fair value is based on appraised value of collateral, less the estimated cost to sell. See discussion of "loans held for investment, collateral dependent" above for further information on appraisals.	Carried at lower of amortized cost or fair value of collateral (Level 3), less the estimated cost to sell. Carried at par value.
Federal Home Loan Bank stock	Carrying value approximates fair value as FHLB stock can only be purchased or redeemed at par value.	Estimated fair value classified as Level 2.
Deposits		Carried at historical cost.
Demand deposits	Fair value is estimated as the amount payable on demand at the reporting date.	Estimated fair value classified as Level 2. Carried at historical cost.
Fixed-maturity certificates of deposit	Fair value is estimated using discounted cash flows based on market rates currently offered for deposits of similar remaining time to maturity.	Estimated fair value classified as Level 2.

Federal Home Loan Bank advances	Fair value is estimated using discounted cash flows based on rates currently available for advances with similar terms and remaining time to maturity.	Carried at historical cost. Estimated fair value classified as Level 2.
Long-term debt	Fair value is estimated using discounted cash flows based on current lending rates for similar long-term debt instruments with similar terms and remaining time to maturity.	Carried at historical cost. Estimated fair value classified as Level 2.

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The following table presents the levels of the fair value hierarchy for the Company's assets and liabilities measured at fair value on a recurring basis.

(in thousands)	Fair Value at December 31, 2013	Level 1	Level 2	Level 3
Assets:				
Investment securities available for sale				
Mortgage backed securities:				
Residential	\$133,910	\$—	\$133,910	\$—
Commercial	13,433	—	13,433	—
Municipal bonds	130,850	—	130,850	—
Collateralized mortgage obligations:				
Residential	90,327	—	90,327	—
Commercial	16,845	—	16,845	—
Corporate debt securities	68,866	—	68,866	—
U.S. Treasury securities	27,452	—	27,452	—
Single family mortgage servicing rights	153,128	—	—	153,128
Single family loans held for sale	279,385	—	279,385	—
Derivatives				
Forward sale commitments	3,630	—	3,630	—
Interest rate swaptions	858	—	858	—
Interest rate lock commitments	6,012	—	—	6,012
Interest rate swaps	1,088	—	1,088	—
Total assets	\$925,784	\$—	\$766,644	\$159,140
Liabilities:				
Derivatives				
Forward sale commitments	578	\$—	\$578	\$—
Interest rate swaptions	199	—	199	—
Interest rate lock commitments	40	—	—	40
Interest rate swaps	9,548	—	9,548	—
Total liabilities	\$10,365	\$—	\$10,325	\$40

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(in thousands)	Fair Value at December 31, 2012	Level 1	Level 2	Level 3
Assets:				
Investment securities available for sale				
Mortgage backed securities:				
Residential	\$62,853	\$—	\$62,853	\$—
Commercial	14,380	—	14,380	—
Municipal bonds	129,175	—	129,175	—
Collateralized mortgage obligations:				
Residential	170,199	—	170,199	—
Commercial	9,043	—	9,043	—
U.S. Treasury securities	30,679	—	30,679	—
Single family mortgage servicing rights	87,396	—	—	87,396
Single family loans held for sale	607,578	—	607,578	—
Derivatives				
Forward sale commitments	621	—	621	—
Swaptions	—	—	—	—
Interest rate lock commitments	22,548	—	—	22,548
Interest rate swaps	538	—	538	—
Total assets	\$1,135,010	\$—	\$1,025,066	\$109,944
Liabilities:				
Derivatives				
Forward sale commitments	\$2,743	\$—	\$2,743	\$—
Interest rate lock commitments	20	—	—	20
Interest rate swaps	9,358	—	9,358	—
Total liabilities	\$12,121	\$—	\$12,101	\$20

Effective December 31, 2012, the Company began to classify interest rate lock commitments (“IRLC”) as Level 3, reflecting management's judgment regarding the transparency and significance of the fall-out factor and initial value of servicing to the fair value measurement of these instruments in their entirety.

Level 3 Recurring Fair Value Measurements

The Company's level 3 recurring fair value measurements consist of single family mortgage servicing rights and interest rate lock commitments, which are accounted for as derivatives. For information regarding fair value changes and activity for single family MSR's during the year ended December 31, 2013 and 2012, see Note 13, Mortgage Banking Operations.

The fair value of IRLCs considers several factors including the fair value in the secondary market of the underlying loan resulting from the exercise of the commitment, the expected net future cash flows related to the associated servicing of the loan (referred to as the value of servicing) and the probability that the commitment will not be converted into a funded loan (referred to as a fall-out factor). The fair value of IRLCs on loans held for sale, while based on interest rates observable in the market, is highly dependent on the ultimate closing of the loans. The significance of the fall-out factor to the fair value measurement of an individual IRLC is generally highest at the time that the rate lock is initiated and declines as closing procedures are performed and the underlying loan gets closer to funding. The fall-out factor applied is based on historical experience. The value of servicing is impacted by a variety of factors, including prepayment assumptions, discount rates, delinquency rates, contractually specified servicing fees,

servicing costs, and underlying portfolio characteristics. Because these inputs are not observable in market trades, the fall-out factor and value of servicing are considered to be level 3 inputs. The fair value of IRLCs decreases in value upon an increase in the fall-out factor and increases in value upon an increase in the value of servicing. Changes in the fall-out factor and value of servicing do not increase or decrease based on movements in other significant unobservable inputs.

The Company recognizes unrealized gains and losses from the time that an IRLC is initiated until the gain or loss is realized at the time the loan closes, which generally occurs within 30-90 days. For IRLCs that fall out, any unrealized gain or loss is reversed, which generally occurs at the end of the commitment period. The gains and losses recognized on IRLC derivatives

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generally correlates to volume of single family interest rate lock commitments made during the reporting period (after adjusting for estimated fallout) while the amount of unrealized gains and losses realized at settlement generally correlates to the volume of single family closed loans during the reporting period.

The following table presents fair value changes and activity for level 3 interest rate lock commitments.

(in thousands)	Year Ended December 31, 2013
Beginning balance, net	\$22,528
Total realized/unrealized gains ⁽¹⁾	123,068
Settlements	(139,624)
Ending balance, net	\$5,972

All realized and unrealized gains and losses are recognized in earnings as net gain from mortgage loan origination and sale activities on the consolidated statement of operations. For the year ended December 31, 2013 there were net unrealized (losses) gains of \$6.0 million recognized on interest rate lock commitments still outstanding at December 31, 2013.

In the first quarter of 2013, the Company refined the valuation methodology used for interest rate lock commitments to reflect assumptions that the Company believes a market participant would consider under current market conditions. This change in accounting estimate resulted in an increase in fair value of \$4.3 million to the Company's interest rate lock commitments outstanding at March 31, 2013.

The following information presents significant Level 3 unobservable inputs used to measure fair value of interest rate lock commitments.

(dollars in thousands)	At December 31, 2013		Significant Unobservable Input	Low	High	Weighted Average
	Fair Value	Valuation Technique				
Interest rate lock commitments, net	\$5,972	Income approach	Fall out factor	0.5%	97.0%	17.8%
			Value of servicing	0.62%	2.65%	1.22%

(dollars in thousands)	At December 31, 2012		Significant Unobservable Input	Low	High	Weighted Average
	Fair Value	Valuation Technique				
Interest rate lock commitments, net	\$22,528	Income approach	Fall out factor	0.4%	59.3%	16.8%
			Value of servicing	0.50%	2.18%	1.04%

Nonrecurring Fair Value Measurements

Certain assets held by the Company are not included in the tables above, but are measured at fair value on a nonrecurring basis. These assets include certain loans held for investment and other real estate owned that are carried at the lower of cost or fair value, less the estimated cost to sell. The following table presents assets that were recorded at fair value during the years ended December 31, 2013 and 2012 and still held at the end of the respective reporting period.

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For the Twelve Months Ended December 31, 2013					
(in thousands)	Fair Value of Assets Held at December 31, 2013	Level 1	Level 2	Level 3	Total Gains (Losses)
Other real estate owned ⁽²⁾	12,959	—	—	12,959	574
Total	\$57,381	\$—	\$—	\$57,381	\$(1,055)

For the Twelve Months Ended December 31, 2012					
(in thousands)	Fair Value of Assets Held at December 31, 2012	Level 1	Level 2	Level 3	Total Losses
Other real estate owned ⁽²⁾	11,012	—	—	11,012	(6,298)
Total	\$50,828	\$—	\$—	\$50,828	\$(12,539)

(1) Represents the carrying value of loans for which adjustments are based on the fair value of the collateral.

(2) Represents other real estate owned where an updated fair value of collateral is used to adjust the carrying amount subsequent to the initial classification as other real estate owned.

The following table presents significant Level 3 unobservable inputs used to measure fair value on a nonrecurring basis during the twelve months ended December 31, 2013 and 2012 for assets still held at the end of the respective reporting period.

(dollars in thousands)	Fair Value of Assets Held at December 31, 2013 (1)	Valuation Technique	Significant Unobservable Input	Year Ended December 31, 2013		
				Low	High	Weighted Average
Loans held for investment	\$14,534	Market approach	Comparable sale adjustments ⁽²⁾	0%	45%	20%
	14,534	Income approach	Discount rate	8.2%	9.5%	8.9%
Other real estate owned	\$5,814	Market approach	Comparable sale adjustments ⁽²⁾	0%	50%	25%

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(dollars in thousands)	Fair Value of Assets Held at December 31, 2012 (1)	Valuation Technique	Significant Unobservable Input	Year Ended December 31, 2012		
				Low	High	Weighted Average
Loans held for investment	\$ 39,816	Market approach Income approach	Comparable sale adjustments ⁽²⁾	20%	45%	29%
			Terminal capitalization rate	8%	8%	8%
			Discount rate	9%	9%	9%
Other real estate owned	\$ 11,012	Market approach	Comparable sale adjustments ⁽²⁾	2%	6%	3%
			Other discounts ⁽³⁾	16%	16%	16%

Assets that are valued using more than one valuation technique are presented within multiple categories for each (1) valuation technique used. Excludes unobservable inputs that we consider, both individually and in the aggregate, to have been insignificant relative to our overall nonrecurring Level 3 measurements recorded during the period.

(2) Represents the range of net adjustments reflecting differences between a comparable sale and the property being appraised, expressed as an absolute value.

(3) Includes bulk sale discounts applied to the aggregate retail value of tract development properties, accelerated marketing period discounts and time-hold or other discounts applied to derive the "as is" market value of certain properties requiring a holding period before reaching a state of feasibility or completion (e.g., "upon completion" or "upon stabilization" value) and management discounts based on the Company's experience with actual liquidation values.

The Company's property appraisals are primarily based on the market approach and income approach methodologies, which consider recent sales of comparable properties, including their income generating characteristics, and then make adjustments to reflect the general assumptions that a market participant would make when analyzing the property for purchase. These adjustments may increase or decrease an appraised value and can vary significantly depending on the location, physical characteristics and income producing potential of each individual property. Additionally, the quality and volume of market information available at the time of the appraisal can vary from period-to-period and cause significant changes to the nature and magnitude of comparable sale adjustments. Given these variations, comparable sale adjustments are generally not a reliable indicator for how fair value will increase or decrease from period to period. Under certain circumstances, management discounts are applied based on specific characteristics of an individual property and the Company's experience with actual liquidation values.

In addition to the instruments disclosed in the table above, certain nonrecurring fair value measurements of residential properties were based on unadjusted third-party appraisals. Factors considered in determining the fair value include geographic sales trends, the value of comparable surrounding properties as well as the condition of the property.

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Fair Value of Financial Instruments

The following presents the carrying value, estimated fair value and the levels of the fair value hierarchy for the Company's financial instruments other than assets and liabilities measured at fair value on a recurring basis.

(in thousands)	At December 31, 2013				
	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Assets:					
Cash and cash equivalents	\$33,908	\$33,908	\$33,908	\$—	\$—
Loans held for investment	1,871,813	1,900,349	—	—	1,900,349
Loans held for sale – multifamily	556	556	—	556	—
Mortgage servicing rights – multifamily	9,335	10,839	—	—	10,839
Federal Home Loan Bank stock	35,288	35,288	—	35,288	—
Liabilities:					
Deposits	\$2,210,821	\$2,058,533	\$—	\$2,058,533	\$—
Federal Home Loan Bank advances	446,590	449,109	—	449,109	—
Long-term debt	64,811	63,849	—	63,849	—
(in thousands)	At December 31, 2012				
	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Assets:					
Cash and cash equivalents	\$25,285	\$25,285	\$25,285	\$—	\$—
Loans held for investment	1,308,974	1,340,882	—	—	1,340,882
Loans held for sale – multifamily	13,221	13,221	—	13,221	—
Mortgage servicing rights – multifamily	8,097	9,497	—	—	9,497
Federal Home Loan Bank stock	36,367	36,367	—	36,367	—
Liabilities:					
Deposits	\$1,976,835	\$1,979,925	\$—	\$1,979,925	\$—
Federal Home Loan Bank advances	259,090	263,209	—	263,209	—
Long-term debt	61,857	60,241	—	60,241	—

Excluded from the fair value tables above are certain off-balance sheet loan commitments such as unused home equity lines of credit, business banking line funds and undisbursed construction funds. A reasonable estimate of the fair value of these instruments is the carrying value of deferred fees plus the related allowance for credit losses, which amounted to \$977 thousand and \$216 thousand at December 31, 2013 and 2012, respectively.

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NOTE 19—EARNINGS PER SHARE:

The following table summarizes the calculation of earnings per share.

(in thousands, except share data)	Year Ended December 31,		
	2013	2012	2011
Net income	\$23,809	\$82,126	\$16,119
Weighted-average shares:			
Basic weighted-average number of common shares outstanding	14,412,059	13,312,939	5,403,498
Dilutive effect of outstanding common stock equivalents ⁽¹⁾	386,109	426,459	344,844
Diluted weighted-average number of common shares outstanding	14,798,168	13,739,398	5,748,342
Earnings per share:			
Basic earnings per share	\$1.65	\$6.17	\$2.98
Diluted earnings per share	\$1.61	\$5.98	\$2.80
Dividends per share	\$0.33	\$—	\$—

(1) Excluded from the computation of diluted earnings per share (due to their antidilutive effect) for the twelve months ended December 31, 2013 were certain stock options and unvested restricted stock issued to key senior management personnel and directors of the Company. The aggregate number of common stock equivalents related to such options and unvested restricted shares, which could potentially be dilutive in future periods, was 103,674 and 121,283 at December 31, 2013 and December 31, 2012, respectively. There were no outstanding common stock equivalents during the twelve months ended December 31, 2012 excluded from the computation of diluted EPS.

NOTE 20—BUSINESS SEGMENTS:

The Company'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.

As a result of a change in the manner in which the chief operating decision maker evaluates strategic decisions, commencing with the second quarter of 2013, the Company realigned its business segments and organized them into two lines of business: Commercial and Consumer Banking segment and Mortgage Banking segment. In conjunction with this realignment, the Company 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.

A description of the Company's business segments and the products and services that they provide is as follows.

Commercial and Consumer Banking provides diversified financial products and services to our commercial and consumer customers through bank branches and through ATMs, online, mobile and telephone banking. These products and services include deposit products; residential, consumer and business portfolio loans; non-deposit 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 the Company generally retains the servicing rights. This segment is also responsible for the management of the Company's portfolio of investment securities.

Mortgage Banking originates and purchases single family residential mortgage loans for sale in the secondary markets. We purchase loans from WMS Series 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 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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We use various management accounting methodologies to assign certain income statement items to the responsible operating segment, including:

- a funds transfer pricing (“FTP”) system, which allocates interest income credits and funding charges between the segments and the Treasury division within the All Other category, which then assigns to each 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 segments by centralized functions, such as corporate overhead, which are generally based on each segment’s consumption patterns; and
- an allocation of the Company's consolidated income taxes which are based on 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 the Company’s lines of business. 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 operating 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 the cost of funds to be allocated to each operating segment. The updated approach is also more consistent with FTP measurement techniques employed by other industry participants. We have reclassified all prior period amounts to conform to the current period’s 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 the Company’s funding costs have generally been higher than market prices due to the historical structure of the deposit portfolio and wholesale borrowings.

Financial highlights by operating segment were as follows.

(in thousands)	Year Ended December 31, 2013		
	Mortgage Banking	Commercial and Consumer Banking	Total
Condensed income statement:			
Net interest income ⁽¹⁾	\$15,272	\$59,172	\$74,444
Provision for loan losses	—	900	900
Noninterest income	182,704	8,041	190,745
Noninterest expense	165,728	63,767	229,495
Income (loss) before income taxes	32,248	2,546	34,794
Income tax (benefit) expense	11,076	(91	) 10,985
Net income (loss)	\$21,172	\$2,637	\$23,809
Average assets	\$595,368	\$2,122,846	\$2,718,214

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(in thousands)	Year Ended December 31, 2012		
	Mortgage Banking	Commercial and Consumer Banking	Total
Condensed income statement:			
Net interest income ⁽¹⁾	\$14,117	\$46,626	\$60,743
Provision for loan losses	—	11,500	11,500
Noninterest income	228,234	9,786	238,020
Noninterest expense	120,364	63,227	183,591
Income (loss) before income taxes	121,987	(18,315)	103,672
Income tax (benefit) expense	25,367	(3,821)	21,546
Net income (loss)	\$96,620	\$(14,494)	\$82,126
Average assets	\$554,824	\$1,849,036	\$2,403,860
(in thousands)	Year Ended December 31, 2011		
	Mortgage Banking	Commercial and Consumer Banking	Total
Condensed income statement:			
Net interest income (expense) ⁽¹⁾	\$3,918	\$44,576	\$48,494
Provision for loan losses	—	3,300	3,300
Noninterest income	84,006	13,199	97,205
Noninterest expense	46,601	79,893	126,494
Income (loss) before income taxes	41,323	(25,418)	15,905
Income tax expense (benefit)	(103)	(111)	(214)
Net income (loss)	\$41,426	\$(25,307)	\$16,119
Average assets	\$230,850	\$2,068,951	\$2,299,801

Net interest income is the difference between interest earned on assets and the cost of liabilities to fund those assets. Interest earned includes actual interest earned on segment assets and, if the segment has excess liabilities, (1) interest credits for providing funding to the other segment. The cost of liabilities includes interest expense on segment liabilities and, if the segment does not have enough liabilities to fund its assets, a funding charge based on the cost of excess liabilities from another segment.

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NOTE 21—PARENT COMPANY FINANCIAL STATEMENTS:

Condensed financial information for HomeStreet, Inc. is as follows.

Condensed Statements of Financial Condition (in thousands)	At December 31,		
	2013	2012	
Assets:			
Cash and cash equivalents	\$4,334	\$22,568	
Other assets	10,340	3,314	
Investment in stock of subsidiaries	316,384	311,779	
	\$331,058	\$337,661	
Liabilities:			
Other liabilities	321	12,042	
Long-term debt	64,811	61,857	
	65,132	73,899	
Shareholders' Equity:			
Preferred stock, no par value	—	—	
Common stock, no par value	511	511	
Additional paid-in capital	94,474	90,189	
Retained earnings	182,935	163,872	
Accumulated other comprehensive (loss) income	(11,994)	) 9,190	
	265,926	263,762	
	\$331,058	\$337,661	
Condensed Statements of Operations (in thousands)	Year Ended December 31,		
	2013	2012	2011
Net interest expense	\$(2,545)	) \$(1,324)	) \$(2,026)
Noninterest income	970	800	13,665
Income (loss) before income tax benefit and equity in income of subsidiaries	(1,575)	) (524)	) 11,639
Dividend from HomeStreet Capital to parent	19,600	—	(10,700)
Income from subsidiaries	6,591	84,504	19,508
	24,616	83,980	20,447
Noninterest expense	2,281	3,152	4,328
Income before income tax benefit	22,335	80,828	16,119
Income tax benefit	(1,474)	) (1,298)) —
Net income	\$23,809	\$82,126	\$16,119
Other comprehensive income	(21,184)) 5,071	11,484
Comprehensive income	\$2,625	\$87,197	\$27,603

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Condensed Statements of Cash Flows (in thousands)	Year Ended December 31,	
	2013	2012
Net cash (used in) provided by operating activities	(20,083	) (2,023
Cash flows from investing activities)
Purchases of and proceeds from investment securities	(5,797	) 1,058
Payments for investments in and advances to subsidiaries	\$(12,172	) \$(65,000
Net cash (used in) provided by investing activities	(17,969	) (63,942
Cash flows from financing activities)
Proceeds from issuance of common stock	188	88,178
Proceeds from advances from subsidiaries	30	34
Dividend from banking subsidiary	19,600	—
Net cash provided by financing activities	19,818	88,212
(Decrease) increase in cash and cash equivalents	(18,234	) 22,247
Cash and cash equivalents at beginning of year	22,568	321
Cash and cash equivalents at end of year	\$4,334	\$22,568

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NOTE 22—UNAUDITED QUARTERLY FINANCIAL DATA:

Our supplemental quarterly consolidated financial information is as follows.

(in thousands, except share data)	Quarter ended				Quarter ended			
	Dec. 31, 2013	Sept. 30, 2013	June 30, 2013	Mar. 31, 2013	Dec. 31, 2012	Sept. 30, 2012	June 30, 2012	Mar. 31, 2012
Interest income	\$24,422	\$23,348	\$20,468	\$20,738	\$20,926	\$21,053	\$19,856	\$18,856
Interest expense	3,040	2,936	3,053	5,503	4,335	4,533	5,057	6,023
Net interest income	21,382	20,412	17,415	15,235	16,591	16,520	14,799	12,833
Provision (reversal of provision) for credit losses	—	(1,500)	400	2,000	4,000	5,500	2,000	—
Net interest income after provision for credit losses	21,382	21,912	17,015	13,235	12,591	11,020	12,799	12,833
Noninterest income	36,072	38,174	57,556	58,943	71,932	69,091	56,850	40,150
Noninterest expense	58,868	58,116	56,712	55,799	55,966	45,934	46,954	34,740
(Loss) income before income tax expense	(1,414)	1,970	17,859	16,379	28,557	34,177	22,695	18,243
Income tax (benefit) expense	(553)	308	5,791	5,439	7,060	12,186	4,017	(1,716)
Net (loss) income	\$(861)	\$1,662	\$12,068	\$10,940	\$21,497	\$21,991	\$18,678	\$19,959
Basic (loss) earnings per share	\$(0.06)	\$0.12	\$0.84	\$0.76	\$1.50	\$1.53	\$1.31	\$1.94
Diluted (loss) earnings per share	\$(0.06)	\$0.11	\$0.82	\$0.74	\$1.46	\$1.50	\$1.26	\$1.86

NOTE 23—SUBSEQUENT EVENTS:

The Company has evaluated the effects of events that have occurred subsequent to the year ended December 31, 2013, and has included all material events that would require recognition in the 2013 consolidated financial statements or

disclosure in the notes to the consolidated financial statements.

On March 5, 2014, the Company announced its intent to sell two pools of residential loans, while retaining the right to service such loans. The first pool is comprised of fixed-rate residential mortgage loans with outstanding principal balances of approximately \$105 million. The second pool is comprised of adjustable rate residential mortgage loans with outstanding principal balances of approximately \$222 million. The mortgage loans subject to these sales are located in Washington, Oregon, Idaho and Hawaii. The \$105 million pool sale is expected to close in March 2014 and the \$222 million pool sale is expected to close in April 2014. These sales are subject to numerous contingencies, including the successful negotiation and execution of final agreements between the parties.

ITEM 9 CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

No disclosure required pursuant to Item 304 of Regulation S-K.

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ITEM 9A CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company carried out an evaluation, with the participation of our management, and under the supervision of our Chief Executive Officer and Chief Accounting Officer, of the effectiveness of our disclosure controls and procedures (as defined under Rule 13a-15(e) and Rule 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. Based upon that evaluation, our Chief Executive Officer and Chief Accounting Officer concluded that our disclosure controls and procedures were effective as of December 31, 2013.

Management's Report on Internal Controls Over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2013, using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control - Integrated Framework (1992). Management excluded from its assessment the internal control over financial reporting at Fortune Bank ("Fortune") and YNB Financial Services Corp. ("YNB"), the parent company of Yakima National Bank, which were acquired on November 1, 2013 and whose financial statements constituted, of the consolidated financial statement amounts, 11% of loans held for investment (net of allowance for loan losses), 9% of deposits, 9% of total assets and 2% of net interest income as of and for the year ended December 31, 2013.

Based on this assessment, management concluded that as of December 31, 2013, the Company's internal control over financial reporting was effective.

Changes in Internal Controls Over Financial Reporting

There were no changes to our internal control over financial reporting that occurred during any quarter in the year ended December 31, 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
HomeStreet, Inc.
Seattle, Washington

We have audited the internal control over financial reporting of HomeStreet, Inc. and subsidiaries (the “Company”) as of December 31, 2013, based on criteria established in Internal Control - Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Because management’s assessment and our audit were conducted to meet the reporting requirements of Section 112 of the Federal Deposit Insurance Corporation Improvement Act (FDICIA), management’s assessment and our audit of the Company’s internal control over financial reporting included controls over the preparation of the schedules equivalent to the basic financial statements in accordance with the instructions for the Consolidated Reports of Condition and Income for Schedules RC, RI, and RI-A. The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Annual Report On Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit.

As described in Management’s Report on Internal Controls Over Financial Reporting, management excluded from its assessment the internal control over financial reporting at Fortune Bank (“Fortune”) and YNB Financial Services Corp. (“YNB”), the parent company of Yakima National Bank, which were acquired on November 1, 2013 and whose financial statements constitute approximately 11% of loans held for investment (net of allowance for loan losses), 9% of deposits, 9% of total assets, and 2% of net interest income as of and for the year ended December 31, 2013.

Accordingly, our audit did not include the internal control over financial reporting at Fortune and YNB.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company’s internal control over financial reporting is a process designed by, or under the supervision of, the company’s principal executive and principal financial officers, or persons performing similar functions, and effected by the company’s board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately, and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the

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company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements. Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on the criteria established in Internal Control - Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission. We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2013, of the Company and our report dated March 17, 2014, expressed an unqualified opinion on those financial statements.

/s/ Deloitte & Touche LLP
Seattle, Washington
March 17, 2014

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ITEM 9B OTHER INFORMATION

None.

PART III

ITEM 10 DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this item will be set forth in our definitive proxy statement with respect to our 2014 annual meeting of stockholders (the “2014 Proxy Statement”) to be filed with the SEC, which is expected to be filed not later than 120 days after the end of our fiscal year ended December 31, 2013, and is incorporated herein by reference.

We have adopted a Code of Business Conduct and Ethics that applies to all of our directors, officers and employees, including our principal executive officer and principal financial officer. The Code of Business Conduct and Ethics is posted on our website at <http://ir.homestreet.com>.

We intend to satisfy the disclosure requirement under Item 5.05 of Form 8-K regarding an amendment to, or waiver from, a provision of this Code of Business Conduct and Ethics by posting such information on our corporate website, at the address and location specified above and, to the extent required by the listing standards of the NASDAQ Global Select Market, by filing a Current Report on Form 8-K with the SEC, disclosing such information.

ITEM 11 EXECUTIVE
COMPENSATION

The information required by this item will be set forth in the 2014 Proxy Statement and is incorporated herein by reference.

ITEM 12 SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND
RELATED STOCKHOLDER MATTERS

The information required by this item will be set forth in the 2014 Proxy Statement and is incorporated herein by reference.

ITEM 13 CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The information required by this item will be set forth in the 2014 Proxy Statement and is incorporated herein by reference.

ITEM 14 PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this item will be set forth in the 2014 Proxy Statement and is incorporated herein by reference.

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PART IV

ITEM 15 EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Financial Statements and Financial Statement Schedules

(i) Financial Statements

The following consolidated financial statements of the registrant and its subsidiaries are included in Part II Item 8:

Report of Independent Registered Public Accounting Firm

Consolidated Statements of Financial Condition as of December 31, 2013 and 2012

Consolidated Statements of Operations for the three years ended December 31, 2013

Consolidated Statements of Comprehensive Income for the three years ended December 31, 2013

Consolidated Statements of Shareholders' Equity for the three years ended December 31, 2013

Consolidated Statements of Cash Flows for the three years ended December 31, 2013

Notes to Consolidated Financial Statements

(ii) Financial Statement Schedules

II—Valuation and Qualifying Accounts

All financial statement schedules for the Company have been included in the consolidated financial statements or the related footnotes, or are either inapplicable or not required.

(iii) Exhibits

EXHIBIT INDEX

Exhibit Number	Description
3.1 ⁽¹⁾	Amended and Restated Articles of Incorporation of HomeStreet, Inc.
3.2 ⁽¹⁾	Amended and Restated Bylaws of HomeStreet, Inc.
3.3 ⁽³⁾	Second Amended and Restated Bylaws of HomeStreet, Inc.
3.4 ⁽⁴⁾	Second Amended and Restated Articles of Incorporation of HomeStreet, Inc.
3.5 ⁽⁶⁾	First Amendment to Second Amended and Restated Articles of Incorporation of HomeStreet, Inc.
3.6 ⁽⁷⁾	Amendment to Second Amended and Restated Articles of Incorporation of HomeStreet, Inc.
4.1 ⁽⁵⁾	Form of Common Stock Certificate
4.2	Reference is made to Exhibit 3.1
4.3	Instruments with respect to long-term debt of HomeStreet, Inc. and its consolidated subsidiaries are omitted pursuant to Item 601(b)(4)(iii) of Regulation S-K since the total amount of securities authorized thereunder does not exceed 10 percent of the total assets of HomeStreet, Inc. and its subsidiaries on a consolidated basis. HomeStreet, Inc. hereby agrees to furnish a copy of any such instrument to the Securities and Exchange Commission upon request.
10.1 ⁽¹⁾	HomeStreet, Inc. 2010 Equity Incentive Plan
10.2	

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HomeStreet, Inc. 401(k) Savings Plan, restated as of January 1, 2011, and amendments to the HomeStreet, Inc. 401(k) Savings Plan adopted as of February 24, 2011, November 1, 2011, January 1, 2012, July 26, 2012, September 1, 2012 and January 1, 2014

10.3 (1)

HomeStreet, Inc. Directors' Deferred Compensation Plan, effective February 1, 2004, as amended and restated December 19, 2008, executed by HomeStreet, Inc. and HomeStreet Bank

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10.4 ⁽¹⁾	HomeStreet, Inc. Executive Deferred Compensation Plan, effective February 1, 2004, as amended and restated December 19, 2008, executed by HomeStreet, Inc., HomeStreet Bank and HomeStreet Capital Corporation
10.5 ⁽²⁾	Form of HomeStreet, Inc. Award Agreement for Nonqualified Stock Options and Standard Terms and Conditions for Nonqualified Stock Options, granted October 22, 2010 and November 29, 2010
10.6 ⁽²⁾	Employment Agreement between HomeStreet, Inc., HomeStreet Bank, and Mark Mason
10.7 ⁽³⁾	Employment Agreement between HomeStreet, Inc., HomeStreet Bank, and Godfrey Evans
10.8 ⁽²⁾	Employment Agreement between HomeStreet, Inc., HomeStreet Bank, and Jay Iseman
10.9 ⁽¹⁾	Form of Officer Indemnification Agreement for HomeStreet, Inc.
10.10 ⁽¹⁾	Form of Director Indemnification Agreement for HomeStreet, Inc.
10.11 ⁽¹⁾	Form of 2011 Director and Officer Indemnification for HomeStreet, Inc.
10.12 †	Office Lease, dated March 5, 1992, between Continental, Inc. and One Union Square Venture, as amended by Supplemental Lease Agreement dated August 25, 1992, Second Amendment to Lease dated May 6, 1998, Third Amendment to Lease dated June 17, 1998, Fourth Amendment to Lease dated February 15, 2000, Fifth Amendment to Lease dated July 30, 2001, Sixth Amendment to Lease dated March 5, 2002, Seventh Amendment to Lease dated May 19, 2004, Eighth Amendment to Lease dated August 31, 2004, Ninth Amendment to Lease dated April 19, 2006, Tenth Amendment to Lease dated July 20, 2006, Eleventh Amendment to Lease dated December 27, 2006, Twelfth Amendment to Lease dated October 1, 2007, Thirteenth Amendment to Lease dated January 26, 2010, Fourteenth Amendment to Lease dated January 19, 2012, Fifteenth Amendment to Lease dated May 24, 2012, Sixteenth Amendment to Lease dated September 12, 2012, Seventeenth Amendment to Lease dated November 8, 2012, Eighteenth Amendment to Lease dated May 3, 2013, Nineteenth Amendment to Lease dated May 28, 2013 and Twentieth Amendment to Lease dated June 19, 2013.
10.13	Advances, Security and Deposit Agreement, dated as of February 1, 2013, between HomeStreet Bank and the Federal Home Loan Bank of Seattle
10.14	Letter Agreement, dated January 15, 2013, by HomeStreet Bank to Federal Reserve Bank of San Francisco
10.15 ⁽¹⁾	Master Custodial Agreement for Custody of Single Family MBS Pool Mortgage Loans, dated October 2009, between HomeStreet Bank, Federal National Mortgage Association, and U.S. Bank, N.A.
10.16 ⁽²⁾ †	Master Agreement ML 02783 between HomeStreet Bank and Fannie Mae, dated March 15, 2010, amended by Letter Agreement dated March 15, 2011
10.17 ⁽¹⁾	Master Agreement, dated as of June 17, 2010, between HomeStreet Bank and Freddie Mac
10.18 ⁽²⁾ †	Cash Pledge Agreement, dated as of June 1, 2010, between HomeStreet Bank and Federal Home Loan Mortgage Corporation

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- 10.19 ⁽³⁾ Amended and Restated Limited Liability Company Agreement of Windermere Mortgage Services Series LLC, dated May 1, 2005, including form of separate series designation
- 10.20 ⁽¹⁾ Correspondent Purchase and Sale Agreement, effective September 1, 2010, between HomeStreet Bank and Windermere Mortgage Services Series LLC
- 10.21 HomeStreet, Inc., 2013 Management/Support Performance Based Annual Incentive Plan
- 10.22 ⁽²⁾ Master Agreement between HomeStreet Bank and Government National Mortgage Association effective January 3, 2011
- 10.23 ⁽³⁾ HomeStreet, Inc. 2011 Director Equity Compensation Plan
- 16.1⁽⁸⁾ Letter from KPMG LLP regarding change in certifying accountant
- 21 Subsidiaries of HomeStreet, Inc.
- 23.1 Consent of Deloitte & Touche LLP
- 23.2 Consent of KPMG LLP
- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. Filed herewith.

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- 31.2 Certification of Chief Accounting Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. Filed herewith.
- 32 Certification of Chief Executive Officer and Chief Accounting Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. Furnished herewith.
- 101.INS ⁽⁹⁾ ⁽¹⁰⁾ XBRL Instance Document
- 101.SCH ⁽⁹⁾ XBRL Taxonomy Extension Schema Document
- 101.CAL ⁽⁹⁾ XBRL Taxonomy Extension Calculation Linkbase Document
- 101.DEF ⁽⁹⁾ XBRL Taxonomy Extension Label Linkbase Document
- 101.LAB ⁽⁹⁾ XBRL Taxonomy Extension Presentation Linkbase Document
- 101.PRE ⁽⁹⁾ XBRL Taxonomy Extension Definitions Linkbase Document
- (1) Filed as an exhibit to HomeStreet, Inc.’s Amendment No. 1 to Registration Statement on Form S-1 (SEC File No. 333-173980) filed on May 19, 2011, and incorporated herein by reference.
- (2) Filed as an exhibit to HomeStreet, Inc.’s Amendment No. 2 to Registration Statement on Form S-1 (SEC File No. 333-173980) filed on June 21, 2011, and incorporated herein by reference.
- (3) Filed as an exhibit to HomeStreet, Inc.’s Amendment No. 3 to Registration Statement on Form S-1 (SEC File No. 333-173980) filed on July 8, 2011, and incorporated herein by reference.
- (4) Filed as an exhibit to HomeStreet, Inc.’s Amendment No. 4 to Registration Statement on Form S-1 (SEC File No. 333-173980) filed on July 26, 2011, and incorporated herein by reference.
- (5) Filed as an exhibit to HomeStreet, Inc.’s Amendment No. 5 to Registration Statement on Form S-1 (SEC File No. 333-173980) filed on August 9, 2011, and incorporated herein by reference.
- (6) Filed as an exhibit to HomeStreet, Inc.’s Current Report on Form 8-K (SEC File No. 001-35424) filed on February 29, 2012, and incorporated herein by reference.
- (7) Filed as an exhibit to HomeStreet, Inc.’s Current Report on Form 8-K (SEC File No. 001-35424) filed on October 25, 2012, and incorporated herein by reference.
- (8) Filed as an exhibit to HomeStreet Inc.’s Current Report on Form 8-K (SEC File No. 001-35424) filed on March 21, 2013, and incorporated herein by reference.
- (9) As provided in Rule 406T of Regulation S-T, this information shall not be deemed “filed” for purposes of Section 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934 or otherwise subject to liability under those sections.
- (10) Pursuant to Rule 405 of Regulation S-T, includes the following financial information included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2012, formatted in XBRL (eXtensible Business Reporting Language) interactive data files: (i) the Consolidated Statements of Operations

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for the three years ended December 31, 2012, (ii) the Consolidated Statements of Financial Condition as of December 31, 2012 and December 31, 2011, (iii) the Consolidated Statements of Shareholders' Equity and Comprehensive Income for the three years ended December 31, 2012, (iv) the Consolidated Statements of Cash Flows for the three years ended December 31, 2012, and (v) the Notes to Consolidated Financial Statements.

† Portions of this exhibit have been omitted pursuant to a confidential treatment order by the Securities and Exchange Commission.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Seattle, State of Washington, on March 17, 2014.

HomeStreet, Inc.

By: /s/ Mark K. Mason
Mark K. Mason
President and Chief Executive Officer

HomeStreet, Inc.

By: /s/ Cory D. Stewart
Cory D. Stewart
Executive Vice President and
Chief Accounting Officer

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POWER OF ATTORNEY

KNOW BY ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Mark K. Mason and Cory Stewart, and each of them his attorney-in-fact, with the power of substitution, for him in any and all capacities, to sign any amendment to this Report on Form 10-K and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that said attorney-in-fact, or his substitute or substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ David A. Ederer David A. Ederer, Chairman	Chairman of the Board and Director	March 17, 2014
/s/ Mark K. Mason Mark K. Mason	President, Chief Executive Officer and Director (Principal Executive Officer)	March 17, 2014
/s/ Cory D. Stewart Cory D. Stewart	Executive Vice President, Chief Accounting Officer (Principal Accounting Officer and Principal Financial Officer)	March 17, 2014
/s/ Scott M. Boggs Scott M. Boggs	Director	March 17, 2014
/s/ Victor H. Indiek Victor H. Indiek	Director	March 17, 2014
/s/ Thomas E. King Thomas E. King	Director	March 17, 2014
/s/ George Kirk George Kirk	Director	March 17, 2014
/s/ Michael J. Malone Michael J. Malone	Director	March 17, 2014
/s/ Douglas I. Smith Douglas I. Smith	Director	March 17, 2014
/s/ Bruce W. Williams Bruce W. Williams	Director	March 17, 2014