

HERITAGE FINANCIAL CORP /WA/
Form 424B3
November 20, 2017
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Registration Statement No. 333-221013

To the Shareholders of Puget Sound Bancorp:

You are cordially invited to attend the special meeting of shareholders of Puget Sound Bancorp, Inc., which we refer to as Puget Sound. The special meeting will be held at Daniel's Broiler, located at 10500 N.E. 8th Street, Bellevue, Washington, on January 4, 2018, at 3:00 p.m., local time.

As described in the enclosed proxy statement/prospectus, the board of directors of Puget Sound has approved the merger agreement that provides for the merger of Puget Sound with and into Heritage Financial Corporation, which we refer to as Heritage, with Heritage being the surviving entity in the merger. We are seeking your vote on this important transaction, as well as the other matters to be considered at the special meeting.

Under the terms of the merger agreement, Puget Sound shareholders will have the right, with respect to each of their Puget Sound common shares, to receive a number of Heritage common shares equal to the exchange ratio as set forth in the merger agreement, which we refer to as the exchange ratio, subject to any adjustment set forth in the merger agreement, which we refer to as the merger consideration. As of July 26, 2017, the date the merger was announced, the exchange ratio was equal to 1.3200 and valued at \$35.84 per Puget Sound common share or approximately \$126.1 million in the aggregate based on Heritage's closing stock price of \$27.15 on that date.

The value of the consideration to be received for each Puget Sound common share exchanged in the merger will be determined based on the exchange ratio. The exchange ratio depends on the average daily closing price of Heritage common shares on the Nasdaq Global Select Market, which we refer to as Nasdaq, for the period beginning on the day that is 20 consecutive Nasdaq trading days prior to and ending on the fifth business day immediately prior to the closing date of the transaction, which period we refer to as the determination period and which price we refer to as the Heritage average closing price. The exchange ratio means the following:

- If the Heritage average closing price for the determination period is greater than or equal to \$20.44 and less than or equal to \$27.66, then the exchange ratio will be 1.3200;

If the Heritage average closing price for the determination period is greater than \$27.66, and the Heritage average closing price for the determination period, as compared to \$24.05, outperforms the average closing value of the

- KBW Nasdaq Regional Banking Index, which we refer to as the KBW Index, for the determination period, as compared to 102.20, by greater than 15%, then the exchange ratio will be the quotient, rounded to the nearest ten-thousandth, obtained by dividing (a) \$36.51 by (b) the Heritage average closing price for the determination period;

If the Heritage average closing price for the determination period is greater than \$27.66, and the Heritage average closing price for the determination period, as compared to \$24.05, does not outperform the average closing value of

- the KBW Index for the determination period, as compared to 102.20, by greater than 15%, then the exchange ratio will be 1.3200;

If the Heritage average closing price for the determination period is less than \$20.44, and the Heritage average closing price for the determination period, as compared to \$24.05, underperforms the average closing value of the

- KBW Index for the determination period, as compared to 102.20, by greater than 15%, then the exchange ratio will be (a) the quotient, rounded to the nearest ten-thousandth, obtained by dividing \$26.98 by the Heritage average closing price for the determination period if Heritage chooses not to adjust the merger consideration in accordance with the merger agreement, or (b) 1.3200 if Heritage does choose to adjust the merger consideration as set forth in the merger agreement and described below; and

If the Heritage average closing price for the determination period is less than \$20.44, and the Heritage average closing price for the determination period, as compared to \$24.05, does not underperform the average closing value of the KBW Index for the determination period, as compared to 102.20, by greater than 15%, then the exchange ratio will be 1.3200.

If Heritage chooses to adjust the merger consideration as set forth in the fourth bullet above, which it may do in its sole discretion, the merger consideration will include an amount in cash equal to (a) \$26.98 minus (b) (x) 1.3200 multiplied by (y) the Heritage average closing price for the determination period, and the exchange ratio will be 1.3200.

If the Heritage average closing price for the determination period is less than \$20.44, either Puget Sound or Heritage may terminate the merger agreement; provided however, if Heritage elects such termination right, then Puget Sound has the right to reinstate the merger agreement and the merger by adjusting the merger consideration to a fixed exchange ratio of 1.3200.

For example, assuming that the closing had occurred on November 6, 2017, the average closing stock price of Heritage for the 20 consecutive trading days ending on the determination date (which is the fifth business day immediately prior to the closing date, or October 30, 2017 in this example) was \$30.08, which is greater than \$27.66 and the change in the value of the stock at that date was more than 15% above the change in the average closing value of the KBW Index for the same period. As a result, if the closing had occurred on November 6, 2017, the exchange ratio would have been 1.2139. The final exchange ratio will not be known until the fifth business day immediately prior to the closing date of the transaction.

You should obtain current stock quotations for Heritage common shares and Puget Sound common shares. Heritage common shares trade on Nasdaq under the symbol "HFWA" and Puget Sound common shares trade on the OTCQB marketplace under the symbol "PUGB."

We expect the transaction to be tax-free for Puget Sound shareholders, except with respect to any cash received by them. After completion of the merger, based on the issued and outstanding Heritage common shares as of July 26, 2017 and the estimated 4,644,928 Heritage common shares to be issued to Puget Sound shareholders, and an exchange ratio of 1.3200, Puget Sound shareholders would own approximately 13% of Heritage's common shares (ignoring any Heritage common shares they may already own).

We cannot complete the merger unless the holders of a majority of the outstanding Puget Sound common shares vote to approve the merger agreement. Your vote is very important. Puget Sound will hold its special meeting of shareholders on January 4, 2018 to vote on the merger agreement. Your board of directors recommends that you vote FOR approval of the merger agreement and the other items to be considered at the special meeting. Whether or not you plan to attend the special meeting, please take the time to vote on the proposal to approve the merger agreement and the other matters to be considered by completing and mailing the enclosed proxy card to us. Please vote as soon as possible to make sure that your shares are represented at the special meeting. If you do not vote, it will have the same effect as voting against the merger agreement.

We encourage you to read carefully the detailed information about the merger contained in this proxy statement/prospectus, including the section entitled "Risk Factors" beginning on page 15. This proxy statement/prospectus incorporates important business and financial information and risk factors about Heritage that are not included in or delivered with this document. See the section entitled "Where You Can Find More Information" on page 75.

We look forward to seeing you at the special meeting.

James R. Mitchell, Jr.

President and Chief Executive Officer

Puget Sound Bancorp, Inc.

Neither the Securities and Exchange Commission nor any state securities commission or bank regulatory agency has approved or disapproved the Heritage common shares to be issued in the merger or passed upon the adequacy

or accuracy of this proxy statement

The securities that Heritage is offering through this proxy statement/prospectus are not savings or deposit accounts or other obligations of any bank or nonbank subsidiary of Heritage or Puget Sound, and they are not insured by the Federal Deposit Insurance Corporation or any other government agency.

This proxy statement/prospectus is dated November 13, 2017 and is first being mailed to Puget Sound shareholders or otherwise delivered to Puget Sound shareholders on or about November 20, 2017.

REFERENCES TO ADDITIONAL INFORMATION

This proxy statement/prospectus incorporates important business and financial information about Heritage from documents filed with the Securities and Exchange Commission, or the SEC, that are not included in or delivered with this proxy statement/prospectus. You can obtain any of the documents filed with or furnished to the SEC by Heritage at no cost from the SEC's website at www.sec.gov or by requesting them in writing or by telephone from Heritage:

Heritage Financial Corporation
201 Fifth Avenue SW
Olympia, Washington 98501
Attn: Investor Relations
(360) 943-1500

All website addresses given in this proxy statement/prospectus are for information only and are not intended to be an active link or to incorporate any website information into this proxy statement/prospectus. You should rely only on the information contained in, or incorporated by reference into, this proxy statement/prospectus. No one has been authorized to provide you with information that is different from that contained in, or incorporated by reference into, this proxy statement/prospectus. This proxy statement/prospectus is dated November 13, 2017, and you should assume that the information in this proxy statement/prospectus is accurate only as of such date. You should assume that the information incorporated by reference into this proxy statement/prospectus is accurate as of the date of the document that includes such information. Neither the mailing of this proxy statement/prospectus to Puget Sound shareholders nor the issuance by Heritage of Heritage common shares in connection with the merger will create any implication to the contrary.

Please note that copies of this proxy statement/prospectus provided to you will not include exhibits, unless the exhibits are specifically incorporated by reference into this proxy statement/prospectus.

This proxy statement/prospectus does not constitute an offer to sell, or a solicitation of an offer to buy, any securities, or the solicitation of a proxy, in any jurisdiction to or from any person to whom it is unlawful to make any such offer or solicitation in such jurisdiction. Except where the context otherwise indicates, information contained in this proxy statement/prospectus regarding Heritage has been provided by Heritage and information contained in this proxy statement/prospectus regarding Puget Sound has been provided by Puget Sound.

If you would like to request documents, please do so by December 19, 2017 in order to receive them before Puget Sound's special meeting of shareholders. See the section entitled "Where You Can Find More Information" on page 75.

Puget Sound Bancorp, Inc.
10500 N.E. 8th Street, Suite 1500
Bellevue, Washington 98004

NOTICE OF SPECIAL MEETING OF PUGET SOUND SHAREHOLDERS

- Date: January 4, 2018
- Time: 3:00 p.m., local time
Daniel's Broiler
- Place: 10500 N.E. 8th Street
Bellevue, Washington 98004

TO OUR SHAREHOLDERS:

We are pleased to notify you of and invite you to attend a special meeting of shareholders. At the special meeting, you will be asked to vote on the following matters:

approval of the Agreement and Plan of Merger, dated as of July 26, 2017, by and between Heritage Financial Corporation ("Heritage") and Puget Sound Bancorp, Inc. ("Puget Sound") (the "merger agreement"). The merger agreement provides the terms and conditions under which it is proposed that Puget Sound merge with and into Heritage, as described in the accompanying proxy statement/prospectus;

a proposal of the Puget Sound board of directors to adjourn or postpone the special meeting, if necessary or appropriate to solicit additional proxies in favor of the merger agreement (which we refer to as the "adjournment proposal"); and

any other business that may be properly submitted to a vote at the special meeting or any adjournment or postponement of the special meeting.

Only shareholders of record at the close of business on November 6, 2017 are entitled to notice of, and to vote at, the special meeting and any adjournments or postponements of the special meeting. The affirmative vote of the holders of a majority of the outstanding Puget Sound common shares as of that date is required to approve the merger agreement. The adjournment proposal will be approved if a majority of the votes cast are voted in favor of the proposal.

In connection with the proposed merger, you may exercise dissenters' rights as provided under the Washington Business Corporation Act. If you meet all of the requirements under applicable Washington law, and follow all of its required procedures, you may receive cash in the amount equal to the fair value of your shares. The procedure for exercising your dissenters' rights is summarized under the heading "Dissenters' Rights" in the attached proxy statement/prospectus. The relevant Washington statutory provisions regarding dissenters' rights are attached to this document as Appendix C.

Puget Sound's board of directors has unanimously approved the merger agreement, believes that the merger agreement and the transactions contemplated thereby, including the merger, are in the best interests of Puget Sound and its shareholders, and unanimously recommends that Puget Sound shareholders vote "FOR" the approval of the merger agreement and "FOR" the adjournment proposal.

Your vote is very important. To ensure that your shares are voted at the special meeting, please complete, sign and date your proxy card and return it in the enclosed envelope promptly. You can also vote by telephone or through the internet.

BY ORDER OF
THE BOARD OF
DIRECTORS

November 20, 2017 Philip I. Mitterling
Secretary

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QUESTIONS AND ANSWERS ABOUT THE MERGER AND THE PUGET SOUND SPECIAL MEETING

The following are some of the questions that you, as a shareholder of Puget Sound, may have and answers to those questions. These questions and answers, as well as the following summary, are not meant to be a substitute for the information contained in the remainder of this document, and this information is qualified in its entirety by the more detailed descriptions and explanations contained elsewhere in this document. We urge you to read this document in its entirety prior to making any decision as to your Puget Sound common shares and the merger agreement.

Q1: Why do Puget Sound and Heritage want to merge?

A1. We want to merge because we each believe the merger will benefit our community, customers, employees and shareholders. We each have long been committed to serving our local customer base. In addition, for Puget Sound, the merger will allow its customers access to a number of products and services that cannot be offered to them now on a cost-effective basis, and will expand the number of branch locations available to them.

Q2: What will Puget Sound shareholders receive in the merger?

A2. Under the terms of the merger agreement, Puget Sound shareholders will have the right, with respect to each of their Puget Sound shares, to receive a number of Heritage common shares equal to the exchange ratio. The exchange ratio will be determined as described below. In addition, we include the following tables which are intended to illustrate the approximate aggregate consideration that would be payable in the merger as of the date of this proxy statement/prospectus based on different Heritage average closing prices. The tables do not reflect the fact that cash will be paid in lieu of fractional shares. In addition, the per share merger consideration is based on the number of Puget Sound common shares and restricted stock awards that were outstanding on July 26, 2017.

If the average daily closing price of Heritage common shares, which we refer to as the Heritage average closing price, on the Nasdaq Global Select Market, which we refer to as Nasdaq, for the period beginning on the day that is I.20 consecutive trading days prior to and ending on the fifth business day immediately prior to the closing date, which we refer to as the determination period, is greater than or equal to \$20.44 and less than or equal to \$27.66, then the exchange ratio will be 1.3200.

Assumed Heritage Average Closing Price	Exchange Ratio	Aggregate Number of Heritage Shares to be Issued as Merger Consideration	Value of Aggregate Heritage Shares to be Issued as Merger Consideration(1)	Aggregate Cash to be Issued as Merger Consideration(1)	Per Share Cash To be Issued as Merger Consideration	Aggregate Merger Consideration(1)	Per Share Merger Consideration
\$ 27.66	1.3200	4,644,928	\$ 128,479	\$ -	\$ -	\$ 128,479	\$ 36.51
\$ 26.46	1.3200	4,644,928	\$ 122,905	\$ -	\$ -	\$ 122,905	\$ 34.93
\$ 25.25	1.3200	4,644,928	\$ 117,284	\$ -	\$ -	\$ 117,284	\$ 33.33
\$ 24.05	1.3200	4,644,928	\$ 111,711	\$ -	\$ -	\$ 111,711	\$ 31.75
\$ 22.85	1.3200	4,644,928	\$ 106,137	\$ -	\$ -	\$ 106,137	\$ 30.16
\$ 21.65	1.3200	4,644,928	\$ 100,563	\$ -	\$ -	\$ 100,563	\$ 28.58
\$ 20.44	1.3200	4,644,928	\$ 94,942	\$ -	\$ -	\$ 94,942	\$ 26.98

(1) In thousands.

II. If the Heritage average closing price for the determination period is greater than \$27.66, and the Heritage average closing price for the determination period, as compared to \$24.05, outperforms the average closing value of the KBW Nasdaq Regional Banking Index, which we refer to as the KBW Index, for the determination period, as compared to 102.20, by greater than 15%, then the exchange ratio will be the quotient, rounded to the nearest ten-thousandth, obtained by dividing (A) \$36.51 by (B) the Heritage average closing price for the determination period.

Table II.

Assumed Heritage Average Closing Price	Exchange Ratio	Aggregate		Aggregate Cash to be Issued as Merger Consideration(1)	Per Share Cash to be Issued as Merger Consideration	Aggregate Merger Consideration(1)	Per Share Merger Consideration
		Number of Heritage Shares to be Issued as Merger Consideration	Value of Aggregate Heritage Shares to be Issued as Merger Consideration(1)				
\$ 33.19	1.1000	3,871,125	\$ 128,483	\$ -	\$ -	\$ 128,483	\$ 36.51
\$ 31.81	1.1478	4,038,976	\$ 128,480	\$ -	\$ -	\$ 128,480	\$ 36.51
\$ 30.42	1.2002	4,223,366	\$ 128,475	\$ -	\$ -	\$ 128,475	\$ 36.51
\$ 29.04	1.2572	4,423,942	\$ 128,471	\$ -	\$ -	\$ 128,471	\$ 36.51
\$ 27.66	1.3200	4,644,928	\$ 128,479	\$ -	\$ -	\$ 128,479	\$ 36.51

(1) In thousands.

III. If the Heritage average closing price for the determination period is greater than \$27.66, and the Heritage average closing price for the determination period, as compared to \$24.05, does not outperform the average closing value of the KBW Index for the determination period, as compared to 102.20, by greater than 15%, then the exchange ratio will be 1.3200.

Table III.

Assumed Heritage Average Closing Price	Exchange Ratio	Aggregate		Aggregate Cash to be Issued as Merger Consideration(1)	Per Share Cash to be Issued as Merger Consideration (1)	Aggregate Merger Consideration	Per Share Merger Consideration
		Number of Heritage Shares to be Issued as Merger Consideration	Value of Aggregate Heritage Shares to be Issued as Merger Consideration(1)				
\$ 33.19	1.3200	4,644,928	\$ 154,165	\$ -	\$ -	\$ 154,165	\$ 43.81
\$ 31.81	1.3200	4,644,928	\$ 147,755	\$ -	\$ -	\$ 147,755	\$ 41.99
\$ 30.42	1.3200	4,644,928	\$ 141,299	\$ -	\$ -	\$ 141,299	\$ 40.15
\$ 29.04	1.3200	4,644,928	\$ 134,889	\$ -	\$ -	\$ 134,889	\$ 38.33
\$ 27.66	1.3200	4,644,928	\$ 128,479	\$ -	\$ -	\$ 128,479	\$ 36.51

(1) In thousands.

IV. If the Heritage average closing price for the determination period is less than \$20.44, and the Heritage average closing price for the determination period, as compared to \$24.05, underperforms the average closing value of the KBW Index for the determination period, as compared to 102.20, by greater than 15%, then the exchange ratio will be (A) the quotient, rounded to the nearest ten-thousandth, obtained by dividing \$26.98 by the Heritage average closing price for the determination period if Heritage chooses not to adjust the merger consideration in accordance with the merger agreement, or (B) 1.3200 if Heritage does choose to adjust the merger consideration as set forth in the merger agreement and described below.

Table IV. A. The exchange ratio will be the quotient, rounded to the nearest ten-thousandth, obtained by dividing \$26.98 by the Heritage average closing price for the determination period if Heritage chooses not to adjust the merger consideration in accordance with the merger agreement.

Assumed Heritage Average Closing Price	Exchange Ratio	Aggregate Number of Heritage Shares to be Issued as Merger Consideration	Value of Aggregate Number of Heritage Shares to be Issued as Merger Consideration(1)	Aggregate Cash to be Issued as Merger Consideration(1)	Per Share Cash to be Issued as Merger Consideration	Aggregate Merger Consideration	Per Share Merger Consideration
\$ 20.44	1.3200	4,644,928	\$ 94,942	\$ -	\$ -	\$ 94,942	\$ 26.98
\$ 19.42	1.3893	4,888,787	\$ 94,940	\$ -	\$ -	\$ 94,940	\$ 26.98
\$ 18.40	1.4664	5,160,093	\$ 94,946	\$ -	\$ -	\$ 94,946	\$ 26.98
\$ 17.38	1.5524	5,462,717	\$ 94,942	\$ -	\$ -	\$ 94,942	\$ 26.98
\$ 16.35	1.6502	5,806,864	\$ 94,942	\$ -	\$ -	\$ 94,942	\$ 26.98

(1) In thousands.

Table IV. B. The exchange ratio will be 1.3200 if Heritage chooses to include an amount in cash equal to (A) \$26.98 minus (B) (x) 1.3200 multiplied by (y) the Heritage average closing price for the determination period.

Assumed Heritage Average Closing Price	Exchange Ratio	Aggregate Number of Heritage Shares to be Issued as Merger Consideration	Value of Aggregate Number of Heritage Shares to be Issued as Merger Consideration(1)	Aggregate Cash to be Issued as Merger Consideration(1)	Per Share Cash to be Issued as Merger Consideration	Aggregate Merger Consideration	Per Share Merger Consideration
\$ 20.44	1.3200	4,644,928	\$ 94,942	\$ -	\$ -	\$ 94,942	\$ 26.98
\$ 19.42	1.3200	4,644,928	\$ 90,205	\$ 4,735	\$ 1.35	\$ 94,940	\$ 26.98
\$ 18.40	1.3200	4,644,928	\$ 85,467	\$ 9,479	\$ 2.69	\$ 94,946	\$ 26.98
\$ 17.38	1.3200	4,644,928	\$ 80,729	\$ 14,213	\$ 4.04	\$ 94,942	\$ 26.98
\$ 16.35	1.3200	4,644,928	\$ 75,945	\$ 18,997	\$ 5.40	\$ 94,942	\$ 26.98

V. If the Heritage average closing price for the determination period is less than \$20.44, and the Heritage average closing price for the determination period, as compared to \$24.05, does not underperform the average closing value of the KBW Index for the determination period, as compared to 102.20, by greater than 15%, then the exchange ratio will be 1.3200.

Table V.

Assumed Heritage Average Closing Price	Exchange Ratio	Aggregate Number of Heritage Shares to be Issued as Merger Consideration	Value of Aggregate Number of Heritage Shares to be Issued as Merger Consideration(1)	Aggregate Cash to be Issued as Merger Consideration(1)	Per Share Cash to be Issued as Merger Consideration	Aggregate Merger Consideration(1)	Per Share Merger Consideration
\$ 20.44	1.3200	4,644,928	\$ 94,942	\$ -	\$ -	\$ 94,942	\$ 26.98
\$ 19.42	1.3200	4,644,928	\$ 90,205	\$ -	\$ -	\$ 90,205	\$ 25.63
\$ 18.40	1.3200	4,644,928	\$ 85,467	\$ -	\$ -	\$ 85,467	\$ 24.29
\$ 17.38	1.3200	4,644,928	\$ 80,729	\$ -	\$ -	\$ 80,729	\$ 22.94
\$ 16.35	1.3200	4,644,928	\$ 75,945	\$ -	\$ -	\$ 75,945	\$ 21.58

(1) In thousands.

Q3: Will the value of the merger consideration change between the date of this document and the time the merger is completed?

Yes.

Although the number of Heritage common shares that Puget Sound shareholders will receive in the merger will be fixed based on the exchange ratio, other than in certain circumstances described below, the value of the merger consideration will fluctuate between the date of this document and the completion of the merger based upon the market value of the Heritage common shares. Therefore, in these circumstances, any fluctuation in the market price of Heritage common shares after the date of this document will change the value of the Heritage common shares that Puget Sound shareholders will receive.

A3: In the event the Heritage average closing price for the determination period is greater than \$27.66, and the Heritage average closing price for the determination period, as compared to \$24.05, outperforms the average closing value of the KBW Index for the determination period, as compared to 102.20, by greater than 15%, the exchange ratio will fluctuate such that the value of the merger consideration to be received by Puget Sound shareholders will fix at \$36.51 per share, and the exchange ratio will be calculated based on the Heritage average closing price for the determination period. If the Heritage average closing price for the determination period is less than \$20.44, and the Heritage average closing price for the determination period, as compared to \$24.05, underperforms the average closing value of the KBW Index for the determination period, as compared to 102.20, by greater than 15%, the value of the merger consideration to be received by Puget Sound shareholders will fix at \$26.98 per share, and the exchange ratio will be calculated based on the Heritage average closing price for the determination period; in that event, Heritage may, in its sole discretion, choose to either adjust the exchange ratio or maintain the exchange ratio of 1.3200 and add cash consideration such that the value of the merger consideration to be received by Puget Sound shareholders would equal \$26.98, calculated as of the determination period.

Q4: What is being voted on at the special meeting?

A4: Puget Sound shareholders will be voting on the approval of the merger agreement, as well as any proposal of the Puget Sound board of directors to adjourn or postpone the special meeting, if necessary or appropriate to solicit additional proxies in favor of the merger agreement (which we refer to as the "adjournment proposal").

Q5: Who is entitled to vote at the special meeting?

A5:

Puget Sound shareholders of record at the close of business on November 6, 2017, the record date for the special meeting, are entitled to receive notice of and to vote on matters that come before the special meeting and any adjournments or postponements of the special meeting. However, a Puget Sound shareholder may only vote his or her shares if he or she is present in person or is represented by proxy at the special meeting.

Q6: How do I vote?

After carefully reading and considering the information contained in this document, please fill out, sign and date the proxy card, and then mail your signed proxy card in the enclosed envelope as soon as possible so that your

A6: shares may be voted at the special meeting. You may also vote by telephone or through the internet. You may also attend the special meeting and vote in person. Even if you are planning to attend the special meeting, we request that you fill out, sign and

return your proxy card. For more detailed information, please see the section entitled "The Special Meeting of Puget Sound Shareholders" beginning on page 27.

Q7: How many votes do I have?

A7: Each Puget Sound common share that you own as of the record date entitles you to one vote. As of the close of business on September 30, 2017, there were 3,425,434 outstanding Puget Sound common shares. As of that date, 17.5% of the outstanding Puget Sound common shares was held by directors and executive officers of Puget Sound and their respective affiliates.

Q8: What constitutes a quorum at the special meeting?

The presence of the holders of one-third of the shares entitled to vote at the special meeting constitutes a quorum.

A8: Presence may be in person or by proxy. You will be considered part of the quorum if you return a signed and dated proxy card, or if you vote in person at the special meeting.

Q9: Why is my vote important?

If you do not vote by proxy or in person at the special meeting, it will be more difficult for Puget Sound to obtain the necessary quorum to hold its special meeting. In addition, if you fail to vote, by proxy or in person, it will have the same effect as a vote against approval of the merger agreement. The merger agreement must be approved by the holders of a majority of the outstanding Puget Sound common shares entitled to vote at the special meeting. If you are the record holder of your shares (meaning a share certificate has been issued in your name and/or your

A9: name appears on Puget Sound's stock ledger) and you respond but do not indicate how you want to vote, your proxy will be counted as a vote in favor of approval of the merger agreement, as well as a vote in favor of approval of the adjournment proposal. If your shares are held in street name with a broker, your broker will vote your shares on the merger agreement proposal only if you provide instructions to it on how to vote. Shares that are not voted because you do not properly instruct your broker will have the effect of votes against approval of the merger agreement.

If you respond and abstain from voting, your abstention will have the same effect as a vote against approval of the merger agreement but will have no effect on the adjournment proposal.

Q10: What is the recommendation of the Puget Sound board of directors?

A10: The Puget Sound board of directors unanimously recommends a vote "FOR" approval of the merger agreement and "FOR" approval of the adjournment proposal.

Q11: What if I return my proxy but do not mark it to show how I am voting?

A11: If your proxy card is signed and returned without specifying your choice, your shares will be voted in favor of approval of both the merger agreement and adjournment proposal in accordance with the recommendation of the Puget Sound board of directors.

Q12: Can I change my vote after I have mailed my signed proxy card?

A12: Yes. If you are a holder of record of Puget Sound common shares, you may revoke your proxy at any time before it is voted by:

- signing and returning a proxy card with a later date,
- delivering a written revocation to Puget Sound's corporate secretary,
- attending the special meeting in person and voting by ballot at the special meeting, or
- voting by telephone or the internet at a later time but prior to the special meeting.

Attendance at the special meeting by itself will not automatically revoke your proxy. A revocation or later-dated proxy received by Puget Sound after the vote is taken at the special meeting will not affect your previously submitted proxy. Puget Sound's corporate secretary's mailing address is: Corporate Secretary, Puget Sound Bancorp, Inc., 10500 NE 8th Street, Suite 1500, Bellevue, Washington 98004. If your shares are held in "street name" through a bank or broker, you should contact your bank or broker to change your voting instructions.

Q13: What regulatory approvals are required to complete the merger?

A13: Promptly following the merger, Puget Sound's subsidiary bank, Puget Sound Bank, will be merged with and into Heritage's subsidiary bank, Heritage Bank, which we often refer to in this document as the "bank merger." In order to complete the merger, Heritage and Puget Sound must first obtain all regulatory approvals, consents and orders required in connection with the merger and the bank merger. Accordingly, the parties must obtain the approval of or waiver by the Board of Governors of the Federal Reserve System (the "Federal Reserve Board"), the approval of the Federal Deposit Insurance Corporation (the "FDIC") and the approval of the Washington State Department of Financial Institutions (the "WDFI"). Applications were filed with the FDIC and WDFI on August 17, 2017 and approval was received from the WDFI on October 27, 2017. A waiver request was submitted to the Federal Reserve Board on November 1, 2017 and the request was approved on November 8, 2017.

Q14: Do I have dissenters' or appraisal rights with respect to the merger?

A14: Yes. Under Washington law, you have the right to dissent from the merger. To exercise dissenters' rights of appraisal you must strictly follow the procedures prescribed by the Washington Business Corporation Act, or the WBCA. To review these procedures in more detail, see the section entitled "Dissenters' Rights" beginning on page 73, and Appendix C of this proxy statement/prospectus.

Q15: What are the material U.S. federal income tax consequences of the merger to me?

A15: The merger is expected to qualify for U.S. federal income tax purposes as a "reorganization" within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended, which we refer to throughout this proxy statement/prospectus as the Code. As a result, we expect that Puget Sound shareholders receiving Heritage common shares in the merger will not recognize gain or loss as a result of the merger, except to the extent they receive cash in lieu of a fractional Heritage common share or as part of the merger consideration.

For further information concerning U.S. federal income tax consequences of the merger, see the section entitled "Material United States Federal Income Tax Consequences of the Merger" beginning on page 65.

Q16: What risks should I consider before I vote on the merger?

A16: We encourage you to read carefully the detailed information about the merger contained in this document, including the section entitled "Risk Factors" beginning on page 15.

Q17: When do you expect to complete the merger?

A17: We are working to complete the merger in the quarter ending March 31, 2018. We must first obtain the necessary regulatory approvals and the approval of Puget Sound's shareholders at the special meeting. In the event of delays, the date for completing the merger can occur as late as March 31, 2018, after which Puget Sound and Heritage would need to mutually agree to extend the closing date of the merger. We cannot assure you as to if and when all the conditions to the merger will be met nor can we predict the exact timing. It is possible we will not complete the merger.

Q18: What happens if the merger is not completed?

A18: If the merger is not completed, holders of Puget Sound common shares will not receive any consideration for their shares in connection with the merger. Instead, Puget Sound will remain an independent public company and its common shares will continue to be traded on the OTCQB Marketplace. In addition, if the merger agreement is terminated in certain circumstances, a termination fee may be required to be paid by Puget Sound. See "The Merger Agreement—Termination of the Merger Agreement" beginning on page 62 for a complete discussion of the circumstances under which a termination fee would be required to be paid.

Q19: If I am a holder of Puget Sound common shares in certificated form, should I send in my Puget Sound share certificates now?

A19: No. Please do not send in your Puget Sound share certificates with your proxy. After completion of the merger, the exchange agent will send you instructions for exchanging Puget Sound share certificates for the merger consideration. See "The Merger Agreement—Exchange Procedures."

Q20: What should I do if I hold my Puget Sound common shares in book-entry form?

A20: You are not required to take any special additional actions if your Puget Sound common shares are held in book-entry form. After the completion of the merger, the exchange agent will send you instructions for converting your book entry shares for the merger consideration. See "The Merger Agreement - Exchange Procedures."

Q21: Whom should I contact with questions or to obtain additional copies of this document?

A21:

Puget Sound Bancorp, Inc.
10500 NE 8th Street
Bellevue, Washington 98004
Attn: Investor Relations
(425) 455-2400

SUMMARY

This summary highlights selected information about the merger but may not contain all of the information that may be important to you. You should carefully read this entire document and the other documents to which this document refers for a more complete understanding of the matters being considered at the special meeting. See the section entitled "Where You Can Find More Information" beginning on page 75. Unless we have stated otherwise, all references in this document to Heritage are to Heritage Financial Corporation all references to Puget Sound are to Puget Sound Bancorp, Inc. and all references to the merger agreement are to the Agreement and Plan of Merger, dated as of July 26, 2017, between Heritage and Puget Sound, a copy of which is attached as Appendix A to this document. In this document, we often refer to the "combined company," which means, following the merger, Heritage and its subsidiaries, including Puget Sound's subsidiaries. References to "we," "us" and "our" in this document mean Heritage and Puget Sound together.

The companies

Heritage Financial Corporation
201 Fifth Avenue SW
Olympia, Washington 98501
Attn: Investor Relations
(360) 943-1500

Heritage is a bank holding company incorporated under the laws of the State of Washington and the parent company of Heritage Bank, a state-chartered, FDIC-insured bank with 59 banking offices located in Washington and Oregon. Heritage is subject to regulation by the Federal Reserve Board and Heritage Bank is examined and regulated by the WDFI and the FDIC. Heritage Bank, a full service commercial bank, does business under the Central Valley Bank name in the Yakima and Kittitas counties of Washington and under the Whidbey Island Bank name on Whidbey Island. Heritage had total consolidated assets of approximately \$4.0 billion, total deposits of approximately \$3.3 billion and total consolidated stockholders' equity of approximately \$500.0 million at June 30, 2017. Heritage's principal executive offices are located at 201 Fifth Avenue SW, Olympia, Washington 98501 and its telephone number is (360) 943-1500. Heritage trades on the Nasdaq Global Select Market under the symbol "HFWA."

Puget Sound Bancorp, Inc.
10500 NE 8th Street, Suite 1500
Bellevue, Washington 98004
Attn: Investor Relations
(425) 455-2400

Puget Sound is a bank holding company for Puget Sound Bank. Puget Sound's business activities generally are limited to passive investment activities and oversight of its investment in Puget Sound Bank. As a bank holding company, Puget Sound is subject to regulation by the Federal Reserve Board. Puget Sound Bank is examined and regulated by the WDFI and by the FDIC. Puget Sound Bank was founded to meet the specialized needs of small and medium sized businesses, select commercial real estate projects, professional service providers and high net worth individuals. Puget Sound Bank offers a full range of financial products including cash management services. Puget Sound had total consolidated assets of approximately \$567.2 million, total deposits of approximately \$505.1 million and total consolidated stockholders' equity of approximately \$53.9 million at June 30, 2017. Puget Sound's principal executive offices are located at 10500 NE 8th Street, Suite 1500, Bellevue, Washington 98004, and its telephone number is (425) 455-2400. Puget Sound trades on the OTCQB Marketplace under the symbol "PUGB."

The merger (Page 31)

We propose a merger in which Puget Sound will merge with and into Heritage and a follow-up merger in which Puget Sound Bank will merge with and into Heritage Bank. As a result of the mergers, Puget Sound will cease to exist as a separate corporation and Puget Sound Bank will cease to exist as a separate financial institution. In the merger, Puget Sound will merge with and into Heritage, with Heritage as the surviving corporation. Immediately following the merger, Puget Sound's wholly owned subsidiary bank, Puget Sound Bank, will merge with and into Heritage's wholly owned subsidiary bank, Heritage Bank, with Heritage Bank as the surviving institution.

Based on the number of Heritage common shares and Puget Sound common shares outstanding as of November 6, 2017, and the closing price of Heritage common shares on such date, Puget Sound shareholders will collectively own up to approximately 12% of the outstanding Heritage common shares after the merger. See the section entitled "The Merger Agreement—Consideration to be Received in the Merger."

We expect the merger of Puget Sound and Heritage to be completed during the quarter ending March 31, 2018, after which Puget Sound and Heritage would need to mutually agree to extend the closing date of the merger.

Approval of the merger agreement requires the affirmative vote, in person or by proxy, of a majority of the outstanding Puget Sound common shares. No vote of Heritage shareholders is required (or will be sought) in connection with the merger.

The merger agreement (Page 53)

The merger agreement is described beginning on page 53. The merger agreement also is attached as Appendix A to this document. We urge you to read the merger agreement in its entirety because it contains important provisions governing the terms and conditions of the merger.

Consideration to be received in the merger (Page 54)

In the merger, Puget Sound shareholders will have the right, with respect to each of their Puget Sound common shares, to receive, as described below, an amount of Heritage common shares equal to the exchange ratio, which is 1.3200 subject to collar and exchange ratio adjustment mechanisms, as more fully detailed in this proxy statement/prospectus. The value of the consideration to be received by Puget Sound shareholders in the merger will vary with the trading price of Heritage common shares between now and the completion of the merger. See "The Merger Agreement-Consideration to be Received in the Merger."

Puget Sound shareholders will own approximately 12% of the outstanding Heritage common shares after the merger (Page 54)

Based on the number of Heritage common shares and Puget Sound common shares (inclusive of shares of restricted stock) outstanding as of November 6, 2017, and the closing price of Heritage common shares on such date, Puget Sound shareholders will collectively own up to approximately 12% of the outstanding Heritage common shares after the merger. See the section entitled "The Merger Agreement—Consideration to be Received in the Merger."

Recommendation of the Puget Sound board of directors and reasons of Puget Sound for the merger (Page 34)

The Puget Sound board of directors believes the merger is in the best interests of Puget Sound and the Puget Sound shareholders. The Puget Sound board of directors unanimously recommends that Puget Sound shareholders vote "FOR" the approval of the merger agreement. For the factors considered by the Puget Sound board of directors in reaching its decision to approve the merger agreement and making its recommendation, see "The Merger—Recommendation of the Puget Sound Board of Directors and Reasons of Puget Sound for the Merger."

Opinion of Puget Sound's financial advisor (Page 36)

In connection with the merger, Puget Sound's financial advisor, Sandler O'Neill & Partners, L.P. or Sandler O'Neill, delivered a written opinion, dated July 26, 2017, to the Puget Sound board of directors as to the fairness, from a financial point of view and as of such date, to the holders of Puget Sound common shares of the exchange ratio in the merger. The full text of the opinion, which describes the procedures followed, assumptions made, matters considered, and qualifications and limitations on the review undertaken by Sandler O'Neill in preparing the opinion, is attached as Appendix B to this proxy statement/prospectus. You should read the opinion and the description of Sandler O'Neill's opinion contained in this proxy statement/prospectus carefully in their entirety.

Sandler O'Neill's opinion speaks only as of the date of the opinion. The opinion of Sandler O'Neill does not reflect any developments that may have occurred or may occur after the date of its opinion and prior to the completion of the merger. The opinion was for the information of, and was directed to, the Puget Sound board of directors (in its capacity as such) in connection with its consideration of the financial terms of the merger. The opinion did not address the underlying business decision of Puget Sound to engage in the merger or enter into the merger agreement or constitute a recommendation to the Puget Sound board of directors in connection with the merger, and it does not constitute a recommendation to any holder of Puget Sound common shares or any shareholder of any other person as to how to vote in connection with the merger or any other matter. Sandler O'Neill's opinion does not address the underlying business decision of Puget Sound to engage in the merger, the form or structure of the merger, the relative merits of the merger as compared to any other alternative business strategies that might exist for Puget Sound or the effect of any other transaction in which Puget Sound might engage.

Share price information (Page 25)

Heritage common shares are traded on Nasdaq under the symbol "HFWA." Puget Sound common shares are traded on the OTCQB Marketplace under the symbol "PUGB."

The following table sets forth (a) the last reported sale prices per share of Heritage common shares on (i) July 26, 2017, the last trading day preceding public announcement of the signing of the merger agreement and (ii) November 9, 2017, the last practicable date prior to the mailing of this proxy statement/prospectus and (b) the equivalent price per Puget Sound share, determined by multiplying 1.3200 exchange ratio by such prices.

	Historical market value per share of Heritage	Equivalent value per share of Puget Sound
July 26, 2017	\$ 27.15	\$ 35.84
November 9, 2017	29.55	39.01

Puget Sound's directors and executive officers have interests in the merger that differ from, or are in addition to, your interests in the merger (Page 48)

You should be aware that some of the directors and executive officers of Puget Sound have interests in the merger that are different from, or are in addition to, the interests of Puget Sound shareholders. These interests may create potential conflicts of interest. Puget Sound's board of directors was aware of and considered these interests, among other matters, when making its decisions to approve the merger agreement and in recommending that Puget Sound shareholders vote in favor of approving the merger agreement. These include the following:

Executive officers and directors hold Puget Sound restricted stock awards that will vest as part of the merger and the executive officers and directors will receive the merger consideration for such restricted stock awards;

James R. Mitchell, the Chief Executive Officer of Puget Sound, will receive a payment of \$798,990 to terminate his salary continuation agreement, which amount has accrued, and a \$813,222 change in control severance payment pursuant to his existing employment agreement;

Sean P. Brennan, the President and Chief Lending Officer, will receive a payment of \$332,519 to terminate his salary continuation agreement and a \$496,384 change in control severance payment pursuant to his existing employment agreement;

Philip I. Mitterling, an Executive Vice President and Chief Financial Officer/Chief Information Officer of Puget Sound, will receive a payment of \$297,338 to terminate his salary continuation agreement and a \$432,582 change in control severance payment pursuant to his existing employment agreement;

Tony Chalfant, an Executive Vice President and Chief Credit Officer/Chief Operating Officer, will receive a payment of \$305,920 to terminate his salary continuation agreement and a \$445,076 change in control severance payment pursuant to his existing employment agreement;

James R. Mitchell and Philip I. Mitterling have entered into transitional employment agreements with Heritage Bank that will be effective upon completion of the merger. Mr. Mitchell's agreement is for a two-year period and Mr. Mitterling's is for a period from the effective time of the merger until approximately two weeks after core system conversion is completed;

Each of Sean P. Brennan and Tony Chalfant has entered into employment agreement with Heritage Bank effective as of the date of completion of the merger for an initial term ending on June 30, 2019;

Stephen A. Dennis, a current director of Puget Sound, will be added to the Heritage board of directors;

Puget Sound's directors and executive officers will receive indemnification from Heritage for their past acts and omissions in their capacities as directors and officers as well as continuing insurance coverage with respect thereto for a period of six years after completion of the merger, to the fullest extent permitted under Puget Sound's organizational documents and to the fullest extent otherwise permitted by law; and

Each director and executive officer has entered into a voting agreement in favor of Heritage agreeing to vote his or her Puget Sound common shares for approval of the merger agreement and approval of the adjournment proposal. For a more complete description of these interests, see "The Merger – Interests of Certain Persons in the Merger" on page 48.

Material United States federal income tax considerations of the merger (Page 65)

The merger is expected to qualify for U.S. federal income tax purposes as a "reorganization" within the meaning of Section 368(a) of the Code. As a result, we expect that Puget Sound shareholders receiving Heritage common shares in the merger will not recognize gain or loss as a result of the merger, except to the extent they receive cash in lieu of a fractional Heritage common share or as merger consideration.

For further information concerning U.S. federal income tax consequences of the merger, please see "Material United States Federal Income Tax Consequences of the Merger" beginning on page 65.

Tax matters are very complicated and the consequences of the merger to any particular Puget Sound shareholder will depend on that shareholder's particular facts and circumstances. Puget Sound shareholders are urged to consult their own tax advisors to determine their own tax consequences from the merger.

Following the merger, you will be entitled to receive any dividends that Heritage pays on its common shares (Page 25).

After the merger, you will receive dividends, if any, that Heritage pays on its common shares. During 2017, Heritage has paid quarterly cash dividends of \$0.12 per share on February 23, 2017, \$0.13 per share on May 24, 2017 and \$0.13 per share on August 24, 2017. On November 22, 2017, Heritage will pay a regular quarterly cash dividend of \$0.13 and a special cash dividend of \$0.10 per share to shareholders of record at the close of business on November 8, 2017.

Accounting treatment (Page 48)

The merger will be accounted for as an acquisition of Puget Sound by Heritage under the acquisition method of accounting in accordance with U.S. generally accepted accounting principles.

In order to complete the merger, we must first obtain certain regulatory approvals (Page 61)

In order to complete the merger, Heritage and Puget Sound must first obtain all regulatory approvals, consents or waivers required in connection with the merger and the bank merger. Accordingly, the parties must obtain the approval of or waiver by the Federal Reserve Board, the approval of the FDIC and the approval of the WDFI. The U.S. Department of Justice may review the impact of the merger and the bank merger on competition. Applications with the FDIC and the WDFI were filed on August 17, 2017 and approval was received from WDFI on October 27, 2017. A waiver request was submitted to the Federal Reserve Board on November 1, 2017 and the request was approved on November 8, 2017.

There can be no assurance as to whether all regulatory approvals will be obtained or as to the dates of the approvals. There also can be no assurance that the regulatory approvals received will not contain a condition or requirement that results in a failure to satisfy the conditions to closing set forth in the merger agreement. See the section entitled "The Merger Agreement—Conditions to Completion of the Merger" on page 61.

Puget Sound shareholders have dissenters' rights (Page 73)

Puget Sound shareholders have the right under Washington law to dissent from the merger, obtain an appraisal of the fair value of their Puget Sound common shares, and receive cash equal to the appraised fair value of their Puget Sound common shares (without giving effect to the merger) instead of receiving the merger consideration. To exercise dissenters' rights, among other things, a Puget Sound shareholder must (i) provide notice to Puget Sound that complies with the requirements of Washington law prior to the vote of its shareholders on the transaction of the shareholder's intent to demand payment for the shareholder's shares, and (ii) not vote in favor of the merger agreement. Submitting a properly signed proxy card that is received prior to the vote at the special meeting (and is not properly revoked) that does not direct how the shares of Puget Sound common shares represented by proxy are to be voted will constitute a vote in favor of the merger agreement and a waiver of such shareholder's statutory dissenters' rights.

If you dissent from the merger agreement and the conditions outlined above are met, then your Puget Sound common shares will not be exchanged for Heritage common shares in the merger, and your only right will be to receive the fair value of

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your Puget Sound common shares as determined by mutual agreement between you and Heritage or by appraisal if you are unable to agree. The appraised value may be more or less than the consideration you would receive under the terms of the merger agreement, and will be based upon the value of Puget Sound common shares without giving effect to the merger. If you exercise dissenters' rights, any cash you receive for your Puget Sound common shares that results in a gain or loss will be immediately recognizable for federal income tax purposes. You should be aware that submitting a signed proxy card without indicating a vote with respect to the merger will be deemed a vote "FOR" the merger agreement and a waiver of your dissenters' rights. A vote "AGAINST" the merger agreement does not dispense with the other requirements to exercise dissenters' rights under Washington law.

A shareholder electing to dissent from the merger agreement must strictly comply with all procedures required under Washington law. These procedures are described more fully beginning on page 73 of this proxy statement/prospectus, and a copy of the relevant Washington statutory provisions regarding dissenters' rights is included as Appendix C to this proxy statement/prospectus.

Additional conditions to consummation of the merger (Page 61)

In addition to the regulatory approvals, the consummation of the merger depends on a number of conditions being met, including, among others:

- approval of the merger agreement by the holders of a majority of all outstanding Puget Sound common shares;
- authorization of the Heritage common shares to be issued in the merger for listing on Nasdaq;
- the effectiveness of a registration statement on Form S-4 with the SEC in connection with the issuance of Heritage common shares in the merger;
- absence of any order, injunction, decree or law preventing or making illegal completion of the merger or the bank merger;
- receipt by each party of an opinion from such party's tax counsel that the merger will qualify as a tax-free reorganization for U.S. federal income tax purposes;
 - accuracy of the representations and warranties of Puget Sound and Heritage, subject to the standards set forth in the closing conditions of the merger agreement;
- performance in all material respects by Puget Sound and Heritage of all obligations required to be performed by either of them under the merger agreement;
- dissenting shares shall be less than 10% of the issued and outstanding Puget Sound common shares; and
- receipt of certain third-party consents by Puget Sound.

Where the law permits, either Heritage or Puget Sound could elect to waive a condition to its obligation to complete the merger although that condition has not been satisfied. We cannot be certain when (or if) the conditions to the merger will be satisfied or waived or that the merger will be completed.

In addition, after Puget Sound's shareholders have adopted the merger agreement, we may not amend the merger agreement to reduce the amount or change the form of consideration to be received by Puget Sound shareholders in the merger without the approval of Puget Sound shareholders as required by law.

We may decide not to complete the merger (Page 62)

Puget Sound and Heritage, by mutual consent, can agree at any time not to complete the merger, even if the shareholders of Puget Sound have voted to approve the merger agreement. Also, either party can decide, without the consent of the other, not to complete the merger in a number of other situations, including:

- if any governmental entity that must grant a required regulatory approval of the merger or the bank merger has denied such approval and such denial has become final and nonappealable, unless the denial is due to the failure of the party seeking to terminate the merger agreement to perform or observe the covenants and agreements of that party set forth in the merger agreement;

if any governmental entity of competent jurisdiction has issued a final nonappealable order, injunction or decree enjoining or otherwise prohibiting or making illegal the consummation of the merger or the bank merger; failure to complete the merger by March 31, 2018, unless the failure of the closing to occur by that date is due to the failure of the party seeking to terminate the merger agreement to perform or observe the covenants or agreements of that party;

if the other party has breached any of its covenants, agreements, representations or warranties contained in the merger agreement based on the closing condition standards set forth in the merger agreement, and the party seeking to terminate is not then in material breach of any representation, warranty, covenant or other agreement contained in the merger agreement, and the breach is not cured within twenty (20) days following written notice to the party committing the breach, or which breach, by its nature, cannot be cured within such twenty (20) day period;

if the approval of the shareholders of Puget Sound contemplated by the merger agreement is not obtained by reason of the failure to obtain the vote required at the Puget Sound special meeting, except this right may not be exercised by Puget Sound if Puget Sound or its board of directors has committed an act that would entitle Heritage to terminate the merger agreement and receive the termination fee specified in the merger agreement; and

if the Heritage average closing price for the determination period is less than \$20.44. If Heritage elects to terminate the merger agreement, Puget Sound would have the option to avoid the termination by adjusting the merger consideration to a fixed exchange ratio of 1.3200, as provided in the merger agreement.

Heritage, without the consent of Puget Sound, can terminate:

if the board of directors of Puget Sound fails to recommend to its shareholders the approval of the merger agreement, or adversely changes, or publicly announces its intention to adversely change its recommendation.

Puget Sound, without the consent of Heritage, can terminate:

prior to obtaining shareholder approval in order to enter into an agreement relating to a superior proposal; provided, however, that Puget Sound has not materially breached the merger agreement provisions outlined in "The Merger Agreement—Agreement Not to Solicit Other Offers" on page 58.

Under some circumstances, Puget Sound will be required to pay a termination fee to Heritage if the merger agreement is terminated (Page 63)

Puget Sound must pay Heritage a termination fee of \$4,250,000 if:

Heritage terminates the merger agreement as a result of: (i) the Puget Sound board of directors failing to recommend the approval of the merger or adversely changing or publicly announcing its intention to adversely change its recommendation and the Puget Sound shareholders failing to approve the merger agreement; (ii) Puget Sound breaching its nonsolicitation or related obligations as provided in the merger agreement; or (iii) Puget Sound refuses to call or hold the special meeting for a reason other than that the merger agreement has been previously terminated; Puget Sound terminates the merger agreement prior to obtaining shareholder approval in order to enter into an agreement relating to a superior proposal; provided, however, that Puget Sound has not materially breached its nonsolicitation and related obligations as provided in the merger agreement; and

if the merger agreement is terminated by either party as a result of the failure of Puget Sound's shareholders to approve the merger agreement and if, prior to such termination, there is publicly announced a proposal for a tender or exchange offer, for a merger or consolidation or other business combination involving Puget Sound or Puget Sound Bank or for the acquisition of a majority of the voting power in, or a majority of the fair market value of the business, assets or deposits of, Puget Sound or Puget Sound Bank and, within one year of the termination, Puget Sound or Puget Sound Bank either enters into a definitive agreement with respect to that type of transaction or consummates that type of transaction.

Comparison of shareholder rights (Page 71)

The conversion of your Puget Sound common shares into the right to receive Heritage common shares in the merger will result in differences between your rights as a Puget Sound shareholder, which are governed by the WBCA and Puget Sound's Articles of Incorporation and Bylaws, and your rights as a Heritage shareholder, which are governed by the WBCA and Heritage's Restated Articles of Incorporation and Amended and Restated Bylaws.

Litigation relating to the merger (Page 53)

Puget Sound, its directors and Heritage are named as defendants in a lawsuit pending in the Superior Court for the State of Washington in King County, under the caption Parshall v. Puget Sound Bancorp, Inc., et al., Case No. 17-2-28224-3 SEA. The complaint generally alleges that Puget Sound's directors breached their fiduciary duties to Puget Sound and its shareholders by agreeing to the proposed merger at an unfair price and by agreeing to deal protection provisions in the merger agreement that are alleged to prevent bids by third parties. The complaint also alleges that the Registration Statement on Form S-4 fails to disclose all material information concerning the proposed transaction. Heritage is alleged to have aided and abetted the directors' alleged breaches of their fiduciary duties. The complaint seeks, among other things, an order enjoining the defendants from consummating the proposed merger, as well as attorneys' and experts' fees and certain other damages.

Defendants believe that the claims and allegations in the lawsuit lack merit.

The special meeting (Page 27)

Meeting Information and Vote Requirements

The special meeting of Puget Sound's shareholders will be held on January 4, 2018, at 3:00 p.m., local time, at Daniel's Broiler, located at 10500 N.E. 8th Street, Bellevue, Washington, unless adjourned or postponed. At the special meeting, Puget Sound's shareholders will be asked to:

- approve the merger agreement; and
- approve the adjournment proposal.

Shareholders will also be asked to act on any other business that may be properly submitted to a vote at the special meeting or any adjournments or postponements of the special meeting.

You may vote at the special meeting if you owned Puget Sound common shares as of the close of business on November 6, 2017. You may cast one vote for each Puget Sound common share you owned at that time. Approval of the merger agreement requires the affirmative vote of the holders of a majority of the outstanding Puget Sound common shares. If you mark "ABSTAIN" on your proxy, or fail to submit a proxy and fail to vote in person at the Puget Sound special meeting or if your shares are held in street name and you fail to instruct your bank or broker how to vote with respect to the merger agreement, it will have the same effect as a vote "AGAINST" the merger agreement.

Approval of the adjournment proposal requires the affirmative vote of a majority of the votes cast at the special meeting. If you mark "ABSTAIN" on your proxy, or fail to submit a proxy and fail to vote in person at the special meeting or if your shares are in street name and you fail to instruct your bank or broker how to vote with respect to the adjournment proposal, it will have no effect on such proposal.

RISK FACTORS

By voting in favor of the merger agreement, you will be choosing to invest in the common shares of Heritage as combined with Puget Sound. An investment in the combined company's common shares involves a high degree of risk. In addition to the other information included in this proxy statement/prospectus, including the matters addressed in the section entitled "Cautionary Statement Regarding Forward-Looking Statements" on page 18, you should carefully consider the matters described below in determining whether to vote in favor of approval of the merger agreement.

Risks Related to the Merger

Because the market price of Heritage common shares will fluctuate, Puget Sound shareholders cannot be sure of the value of the merger consideration they will receive.

Upon completion of the merger, each Puget Sound common share will be converted into the right to receive merger consideration consisting of a number of Heritage common shares equal to the exchange ratio pursuant to the terms of the merger agreement. Other than in certain circumstances described below, the number of Heritage common shares to be received by a Puget Sound shareholder will be determined based on a fixed exchange ratio of 1.3200 Heritage common shares for each Puget Sound common share. Accordingly, the value of the merger consideration to be received by the Puget Sound shareholders will be based on the value of the Heritage common shares during the determination period prior to closing. The value of the Heritage common shares to be received by Puget Sound shareholders in the merger may vary from the value as of the date we announced the merger, the date that this document was mailed to Puget Sound shareholders, the date of the Puget Sound special meeting and the determination period. Any change in the market price of Heritage common shares prior to completion of the merger will affect the value of the merger consideration that Puget Sound shareholders will receive upon completion of the merger. Accordingly, at the time of the Puget Sound special meeting, Puget Sound shareholders will not know or be able to calculate the value of the per share consideration they would receive upon completion of the merger. Share price changes may result from a variety of factors, including general market and economic conditions, changes in our respective businesses, operations and prospects, and regulatory considerations, among other things. Many of these factors are beyond the control of Heritage and Puget Sound. Puget Sound shareholders should obtain current market quotations for Heritage common shares before voting their shares at the Puget Sound special meeting.

In addition, the exchange ratio adjustment mechanisms provides that, in the event that the Heritage average closing price for the determination period is greater than \$27.66, and the Heritage average closing price for the determination period, as compared to \$24.05, outperforms the average closing value of the KBW Index for the determination period, as compared to 102.20 by greater than 15%, then the exchange ratio will be adjusted such that the value of the merger consideration to be received will fix at \$36.51 for each outstanding Puget Sound common share, and the exchange ratio will be calculated based on the Heritage average closing price for the determination period. Additionally, in the event the Heritage average closing price for the determination period is less than \$20.44, and the Heritage average closing price for the determination period, as compared to \$24.05, underperforms the average closing value of the KBW Index for the determination period, as compared to 102.20, by greater than 15%, then the value of the merger consideration to be received will be fixed at \$26.98 for each outstanding Puget Sound common share, and the exchange ratio will be calculated based on the Heritage average closing price for the determination period, and Heritage may either adjust the exchange ratio or maintain the exchange ratio of 1.3200 and add the difference in cash to the merger consideration.

However, as noted above, at the time of the Puget Sound special meeting, Puget Sound shareholders will not be able to calculate the exchange ratio used to determine the number of Heritage common shares they would receive with respect to each Puget Sound common share upon the completion of the merger. You should obtain current market prices for Heritage common shares and for Puget Sound common shares.

Puget Sound's shareholders will have less influence as shareholders of Heritage than as shareholders of Puget Sound. Puget Sound's shareholders currently have the right to vote in the election of the board of directors of Puget Sound and on other matters affecting Puget Sound. Following the merger, the shareholders of Puget Sound as a group will hold a maximum ownership interest of 12% of Heritage. When the merger occurs, each Puget Sound

shareholder will become a shareholder of Heritage with a percentage ownership of the combined company much smaller than such shareholder's percentage ownership of Puget Sound. Because of this, Puget Sound's shareholders will have less influence on the management and policies of Heritage than they now have on the management and policies of Puget Sound.

If Heritage is unable to integrate the combined operations successfully, its business and earnings may be negatively affected.

The merger involves the integration of companies that have previously operated independently. Successful integration of Puget Sound's operations will depend primarily on Heritage's ability to consolidate operations, systems and procedures and to eliminate redundancies and costs. No assurance can be given that Heritage will be able to integrate its post-merger operations without encountering difficulties including, without limitation, the loss of key employees and customers, the disruption of the ongoing business of Heritage or Puget Sound or possible inconsistencies in standards, controls, procedures and policies. Anticipated economic benefits of the merger are projected to come from various areas that Heritage's management has identified through the due diligence and integration planning process. The elimination and consolidation of duplicate tasks are projected to result in annual cost savings. If Heritage has difficulties with the integration, it might not fully achieve the economic benefits it expects to result from the merger. In addition, Heritage may experience greater than expected costs or difficulties relating to the integration of the business of Puget Sound, and/or may not realize expected cost savings from the merger within the expected time frame.

The fairness opinion of Puget Sound's financial advisor received by Puget Sound's board of directors prior to signing of the merger agreement does not reflect changes in circumstances since the signing of the merger agreement. Changes in the operations and prospects of Heritage or Puget Sound or general market and economic conditions, and other factors that may be beyond the control of Heritage and Puget Sound, may alter the value of Heritage or Puget Sound or the prices of Heritage common shares or Puget Sound common shares by the time the merger is completed. The opinion of Puget Sound's financial advisor, dated July 26, 2017, does not speak as of the time the merger will be completed or as of any date other than the date of such opinion. For a description of the opinion of Puget Sound's financial advisor, please refer to "The Merger—Opinion of Puget Sound's Financial Advisor." For a description of the other factors considered by the board of directors of Puget Sound in determining to approve the merger, please refer to "The Merger—Recommendation of the Puget Sound Board of Directors and Reasons of Puget Sound for the Merger." The merger agreement limits Puget Sound's ability to pursue alternatives to the merger.

The merger agreement contains non-solicitation provisions that, subject to limited exceptions, limit Puget Sound's ability to discuss, facilitate or commit to competing third-party proposals to acquire all or a significant part of Puget Sound. Although Puget Sound's board of directors is permitted to take certain actions in connection with the receipt of a competing acquisition proposal if it determines in good faith that the failure to do so would violate its fiduciary duties, taking such actions could, and other actions (such as withdrawing or modifying its recommendation to Puget Sound shareholders that they vote in favor of approval of the merger agreement) would, entitle Heritage to terminate the merger agreement and receive a termination fee of \$4,250,000. See the section entitled "The Merger Agreement—Termination of the Merger Agreement" on page 62. These provisions might discourage a potential competing acquiror that might have an interest in acquiring all or a significant part of Puget Sound from considering or proposing that acquisition even if it were prepared to pay consideration with a higher per share price than that proposed in the merger, or might result in a potential competing acquiror proposing to pay a lower per share price to acquire Puget Sound than it might otherwise have proposed to pay. The payment of the termination fee could also have an adverse impact on Puget Sound's financial condition.

Puget Sound will be subject to business uncertainties and contractual restrictions while the merger is pending. Heritage and Puget Sound have operated and, until the completion of the merger, will continue to operate, independently. Uncertainty about the effect of the merger on employees and customers may have an adverse effect on Puget Sound and consequently on Heritage. These uncertainties may impair Puget Sound's ability to attract, retain or motivate key personnel until the merger is consummated, and could cause customers and others that deal

with Puget Sound to seek to change existing business relationships with Puget Sound. Retention of certain employees may be challenging during the pendency of the merger, as certain employees may experience uncertainty about their future roles with Heritage. If key employees depart because of issues relating to the uncertainty and difficulty of integration or a desire not to remain with Heritage, Heritage's business following the merger could be harmed. In addition, the merger agreement restricts Puget Sound from making certain acquisitions and taking other specified actions until the merger occurs without the consent of Heritage. These restrictions may prevent Puget Sound from pursuing attractive business opportunities that may arise prior to the completion of the merger. See "The Merger Agreement—Conduct of Businesses Pending the Merger."

Puget Sound's directors and executive officers have additional interests in the merger.

In deciding how to vote on the approval of the merger agreement, you should be aware that Puget Sound's directors and executive officers might have interests in the merger that are different from, or in addition to, the interests of Puget Sound shareholders generally. See the section entitled "The Merger—Interests of Certain Persons in the Merger." Puget Sound's board of directors was aware of these interests and considered them when it recommended approval of the merger agreement to the Puget Sound shareholders.

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

Before the merger and the bank merger may be completed, Heritage and Puget Sound must obtain approval from the FDIC and a waiver from the Federal Reserve Board. Other approvals, waivers or consents from regulators may also be required. An adverse development in either party's regulatory standing or other factors could result in an inability to obtain approvals or delay their receipt. These regulators may impose conditions on the completion of the merger or the bank merger or require changes to the terms of the merger or the bank merger. While Heritage and Puget Sound do not currently expect that any such conditions or changes will be imposed, there can be no assurance that they will not be, and such conditions or changes could have the effect of delaying completion of the merger or imposing additional costs on or limiting the revenues of Heritage following the merger, any of which might have an adverse effect on Heritage following the merger. Heritage is not obligated to complete the merger if the regulatory approvals received in connection with the completion of the merger impose any unduly burdensome condition upon Heritage following the merger or Heritage Bank following the bank merger. See "The Merger—Regulatory Approvals Required for the Merger" and "The Merger Agreement – Conditions to Completion of the Merger."

The merger is subject to certain closing conditions that, if not satisfied or waived, will result in the merger not being completed, which may cause the price of Heritage common shares or Puget Sound common shares to decline.

The merger is subject to customary conditions to closing, including the receipt of required regulatory approvals and approval of Puget Sound's shareholders. If any condition to the merger agreement is not satisfied or waived, to the extent permitted by law, the merger will not be completed. In addition, Heritage and Puget Sound may terminate the merger agreement under certain circumstances, even if Puget Sound's shareholders approve the merger agreement. If Heritage and Puget Sound do not complete the merger, the trading prices of Heritage common shares or Puget Sound common shares may decline. In addition, neither company would realize any of the expected benefits of having completed the merger. If the merger is not completed and Puget Sound's board of directors seeks another merger or business combination, Puget Sound shareholders cannot be certain that Puget Sound will be able to find a party willing to offer equivalent or more attractive consideration than the consideration Heritage has agreed to provide. If the merger is not completed, additional risks could materialize, which could materially and adversely affect the business, financial condition and results of Heritage and Puget Sound, including the recognition of the expenses relating to the merger without realizing the economic benefits of the merger. For more information on closing conditions to the merger agreement, see "The Merger Agreement— Conditions to Completion of the Merger" included elsewhere in this proxy statement/prospectus.

Pending litigation against Puget Sound and Heritage could result in an injunction preventing the completion of the merger or a judgment resulting in the payment of damages.

In connection with the merger, a purported Puget Sound shareholder has filed a putative shareholder class action lawsuit against Puget Sound, the members of the Puget Sound board of directors and Heritage. Among other remedies, the plaintiff seeks to enjoin the merger. The outcome of any such litigation is uncertain. If the lawsuit is not resolved, it could prevent or delay completion of the merger and result in substantial costs to Heritage and Puget Sound, including any costs associated with the indemnification of directors and officers. Additional lawsuits may be filed against Heritage, Puget Sound and/or the directors and officers of either company in connection with the merger. The defense or settlement of any lawsuit or claim that remains unresolved at the time the merger is completed may adversely affect the combined company's business, financial condition, results of operations and cash flows following the merger. See "The Merger—Litigation Relating to the Merger" on page 53.

Risks Relating to Heritage and Heritage's Business

Heritage is, and will continue to be, subject to the risks described in Heritage's Annual Report on Form 10-K for the fiscal year ended December 31, 2016, as updated by subsequent Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, all of which are filed with the SEC and incorporated by reference into this proxy statement/prospectus. See "Where You Can Find More Information" included elsewhere in this proxy statement/prospectus.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This document, including information included or incorporated by reference in this document, may contain 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"), and Heritage and Puget Sound intend for such forward-looking statements to be covered by the safe harbor provisions for forward looking statements contained in the Private Securities Litigation Reform Act of 1995. These forward-looking statements include, but are not limited to, (i) statements about the benefits of the merger, including future financial and operating results, cost savings, enhancements to revenue and accretion to reported earnings that may be realized from the merger; (ii) statements about our respective plans, objectives, expectations and intentions and other statements that are not historical facts; (iii) statements about expectations regarding the timing of the closing of the merger and the ability to obtain regulatory approvals on a timely basis; and (iv) other statements identified by words such as "expects," "projects," "anticipates," "intends," "plans," "believes," "seeks," "estimates," "possible," "potential," "strategy," or words of similar meaning. These forward-looking statements are based on current beliefs and expectations of Heritage's and Puget Sound's respective management and are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are difficult to predict and beyond Heritage's and Puget Sound's control. In addition, these forward-looking statements are subject to assumptions with respect to future business strategies and decisions that are subject to change.

The following factors, among others, could cause actual results to differ materially from the anticipated results or other expectations expressed in the forward-looking statements:

- our ability to successfully integrate any assets, liabilities, customers, systems, and personnel;
- the required regulatory approvals for the merger and bank merger and/or the approval of the merger agreement by the shareholders of Puget Sound might not be obtained or other conditions to the completion of the merger set forth in the merger agreement might not be satisfied or waived;
- the growth opportunities and cost savings from the merger may not be fully realized or may take longer to realize than expected;
- operating costs, customer losses and business disruption following the merger, including adverse effects on relationships with employees, may be greater than expected;
- adverse governmental or regulatory policies may be enacted;

- the interest rate environment may change, causing margins to compress and adversely affecting net interest income;
- the global financial markets may experience increased volatility;
- we may experience adverse changes in our credit rating;
- we may experience competition from other financial services companies in our markets; and
- an economic slowdown may adversely affect credit quality and loan originations.

Additional factors that could cause actual results to differ materially from those expressed in the forward-looking statements are discussed under "Risk Factors" beginning on page 15 and in Heritage's reports filed with the SEC. For any forward-looking statements made in this proxy statement/prospectus or in any documents incorporated by reference into this proxy statement/prospectus, Heritage and Puget Sound claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. You are cautioned not to place undue reliance on these statements, which speak only as of the date of this proxy statement/prospectus or the date of the applicable document incorporated by reference in this proxy statement/prospectus. Heritage and Puget Sound do not undertake to update forward-looking statements to reflect facts, circumstances, assumptions or events that occur after the date the forward-looking statements are made. All subsequent written and oral forward-looking statements concerning the merger or other matters addressed in this proxy statement/prospectus and attributable to Heritage, Puget Sound or any person acting on their behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this proxy statement/prospectus.

SELECTED CONSOLIDATED FINANCIAL INFORMATION OF HERITAGE

Heritage is providing the following information to aid you in your analysis of the financial aspects of the merger. Heritage derived the information as of and for each of the five years ended December 31, 2012 through December 31, 2016 from its historical audited consolidated financial statements for these fiscal years. The consolidated financial information contained herein is the same historical information that Heritage has presented in its prior filings with the SEC. The historical consolidated financial data for the six months ended June 30, 2017 and 2016 is derived from unaudited consolidated financial statements. In the opinion of management, all adjustments, consisting of normal recurring accruals, necessary for a fair presentation at such dates and for such periods have been made.

The operating results for the six months ended June 30, 2017 and 2016 are not necessarily indicative of the operating results that may be expected for any future interim period or the year ending December 31, 2017. This information is only a summary, and you should read it in conjunction with Heritage's consolidated financial statements and notes thereto contained in Heritage's 2016 Annual Report on Form 10-K, which has been incorporated by reference into this document. See the section entitled "Where You Can Find More Information" on page 75.

	At or for the Six Months Ended June 30,		At or for the Year Ended December 31,				
	<u>2017</u>	<u>2016</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
	(Dollars in thousands, except per share data)						
Operations Data:							
Interest income	\$70,950	\$68,827	\$138,512	\$135,739	\$121,106	\$71,428	\$69,109
Interest expense	3,624	2,982	6,006	6,120	5,681	3,724	4,534
Net interest income	67,326	65,845	132,506	129,619	115,425	67,704	64,575
Provision for loan losses	1,998	2,259	4,931	4,372	4,594	3,672	2,016
Noninterest income	18,012	13,566	31,619	32,268	16,467	9,651	7,272
Noninterest expense	55,032	52,846	106,473	106,208	99,379	59,515	50,392
Income tax expense	7,164	6,320	13,803	13,818	6,905	4,593	6,178
Net income	21,144	17,986	38,918	37,489	21,014	9,575	13,261
Earnings per common share							
Basic	0.71	0.60	1.30	1.25	0.82	0.61	0.87
Diluted	0.70	0.60	1.30	1.25	0.82	0.61	0.87
Dividend payout ratio to common shareholders(1)	35.7	% 38.3	% 55.4	% 42.4	% 61.0	% 68.9	% 92.0
Performance Ratios:							
Net interest spread(2)	3.83	% 3.95	% 3.89	% 4.04	% 4.45	% 4.69	% 5.03
Net interest margin(3)	3.91	4.02	3.96	4.11	4.53	4.80	5.17
Efficiency ratio(4)	64.49	66.55	64.87	65.61	75.35	76.94	70.14
Noninterest expense to average assets	2.85	2.89	2.84	3.01	3.49	3.86	3.72
Return on average assets	1.09	0.98	1.04	1.06	0.74	0.62	0.98
Return on average common equity	8.68	7.53	8.01	8.08	5.61	4.58	6.52

(footnotes appear on the following page)

- (1) Dividend payout ratio is declared dividends per common share divided by diluted earnings per common share.
(2) Net interest spread is the difference between the average yield on interest earning assets and the average cost of interest bearing liabilities.
(3) Net interest margin is net interest income divided by average interest earning assets.
(4) The efficiency ratio is noninterest expense divided by the sum of net interest income and noninterest income.

	At or for the Six Months Ended June 30,		At or for the Year Ended December 31,				
	<u>2017</u>	<u>2016</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
(Dollars in thousands, except per share data)							
Balance Sheet Data:							
Total assets	\$3,990,954	\$3,756,876	\$3,878,981	\$3,650,792	\$3,457,750	\$1,659,038	\$1,345,540
Total loans receivable, net	2,716,756	2,496,175	2,609,666	2,372,296	2,223,348	1,203,096	998,344
Investment securities	790,594	815,920	794,645	811,869	778,660	199,288	154,392
FDIC indemnification asset	-	-	-	-	1,116	4,382	7,100
Goodwill and other intangible assets	125,756	127,120	126,403	127,818	129,918	30,980	14,098
Deposits	3,291,250	3,158,906	3,229,648	3,108,287	2,906,331	1,399,189	1,117,971
Federal Home Loan Bank advances	110,900	33,000	79,600	-	-	-	-
Junior subordinated debentures	19,863	19,571	19,717	19,424	19,082	-	-
Securities sold under agreement to repurchase	21,255	16,715	22,104	23,214	32,181	29,420	16,021
Stockholders' equity	500,048	490,058	481,763	469,970	454,506	215,762	198,938
Financial Measures:							
Book value per common share	\$16.71	\$16.34	\$16.08	\$15.68	\$15.02	\$13.31	\$13.16
Stockholders' equity to assets ratio	12.5	% 13.0	% 12.4	% 12.9	% 13.1	% 13.0	% 14.8
Net loans to deposits (1)	82.7	% 79.2	% 81.2	% 76.6	% 76.7	% 86.0	% 89.4
Capital Ratios:							
Total risk-based capital ratio	13.1	% 13.0	% 13.0	% 13.7	% 15.1	% 16.8	% 19.9
	12.1	12.1	12.0	12.7	13.9	15.5	18.7

Tier 1 risk-based capital ratio														
Leverage ratio	10.5		10.5		10.3		10.4		10.2		11.3		13.6	
Common equity Tier 1 capital to risk-weighted assets	11.5		11.5		11.4		12.0		N/A		N/A		N/A	
Asset Quality Ratios:														
Nonperforming loans to loans receivable, net (2)	0.40	%	0.55	%	0.41	%	0.40	%	0.51	%	0.63	%	1.29	%
Allowance for loan losses to loans receivable, net (2)	1.19		1.13		1.18		1.24		1.23		2.34		2.78	
Allowance for loan losses to nonperforming loans (2)	298.47		205.05		284.93		307.67		239.62		372.16		215.67	
Nonperforming assets to total assets (2)	0.29		0.41		0.30		0.32		0.43		0.74		1.41	
Net charge-off on loans to average loans receivable, net	0.03		0.30		0.14		0.10		0.30		0.31		0.44	
Other Data:														
Number of banking offices	59		63		63		67		66		35		33	
Number of full-time equivalent employees	750		745		760		717		748		373		363	
Deposits per branch	55,784		50,141		51,264		46,392		44,035		39,977		33,878	
Assets per full-time equivalent	5,319		5,045		5,104		5,092		4,623		4,448		3,707	

(1) Total loans receivable, net plus loans held for sale divided by deposits.

At June 30, 2017 and June 30, 2016 and December 31, 2016, 2015, 2014, 2013 and 2012, \$1.6 million, \$2.2

(2) million, \$2.8 million, \$1.3 million, \$1.6 million, \$1.7 million and \$1.2 million of nonaccrual loans were guaranteed by government agencies, respectively.

SELECTED CONSOLIDATED FINANCIAL INFORMATION OF PUGET SOUND

Puget Sound is providing the following information to aid you in your analysis of the financial aspects of the merger. Puget Sound derived the information as of and for each of the five years ended December 31, 2012 through December 31, 2016 from its historical audited consolidated financial statements for these fiscal years. The historical consolidated financial data for the six months ended June 30, 2017 and 2016 is derived from unaudited consolidated financial statements. In the opinion of management, all adjustments, consisting of normal recurring accruals, necessary for a fair presentation at such dates and for such periods have been made.

The operating results for the six months ended June 30, 2017 and 2016 are not necessarily indicative of the operating results that may be expected for any future interim period or the year ending December 31, 2017. This information is only a summary, and you should read it in conjunction with Puget Sound's consolidated financial statements and notes thereto contained in Puget Sound's 2016 Annual Report.

	At or for the Six Months Ended June 30,		At or for the Year Ended December 31,				
	<u>2017</u>	<u>2016</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
(Dollars in thousands, except per share data)							
Operations Data:							
Interest income	\$10,026	\$8,570	\$17,921	\$16,140	\$14,747	\$12,663	\$10,865
Interest expense	522	509	1,065	757	643	596	732
Net interest income	9,504	8,060	16,856	15,383	14,104	12,067	10,133
Provision for loan losses	59	73	933	103	613	441	993
Noninterest income	411	397	855	749	674	641	517
Noninterest expense	6,098	5,263	10,729	9,912	9,462	8,885	6,765
Income tax expense	1,176	1,034	1,886	2,034	1,480	1,217	958
Net income	2,582	2,088	4,163	4,083	3,223	2,164	1,933
Preferred stock dividends	-	-	-	108	99	99	99
Net income available to common shareholders	2,582	2,088	4,163	3,975	3,125	2,066	1,834
Earnings per common share							
Basic	\$0.76	\$0.62	\$1.23	\$1.22	\$1.06	\$0.77	\$0.78
Diluted	\$0.74	\$0.61	1.22	1.21	1.01	0.75	0.78
Dividend payout ratio to common shareholders(1)	-	-	-	-	-	-	-
Performance Ratios:							
Net interest spread(2)	3.59	% 3.47	% 3.42	% 3.66	% 3.99	% 4.06	% 3.98
Net interest margin(3)	3.76	3.70	3.64	3.85	4.17	4.24	4.18
Efficiency ratio(4)	61.5	62.2	60.6	61.4	64.0	69.9	63.5
Noninterest expense to average assets	2.26	2.26	2.18	2.32	2.66	2.98	2.69
Return on average assets	0.97	0.90	0.85	0.95	0.91	0.73	0.77
Return on average tangible common equity	10.33	9.11	8.81	9.60	9.01	6.98	7.37

(1) Dividend payout ratio is declared dividends per common share divided by diluted earnings per common share.

Net interest spread is the difference between the average yield on interest earning assets and the average cost of (2) interest bearing liabilities.

(3) Net interest margin is net interest income divided by average interest earning assets.

(4) The efficiency ratio is noninterest expense divided by the sum of net interest income and noninterest income.
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Balance Sheet Data:	At or for the Six Months Ended		At of for the Year Ended December 31,										
	June 30		2016		2015		2014		2013		2012		
Total Assets	\$567,165	\$467,076	\$519,265	\$480,813	\$387,729	\$339,263	\$268,389						
Total Loans Receivable, net	366,594	357,726	368,958	333,457	311,002	271,372	211,625						
Securities Available for Sale	91,137	60,910	88,645	53,832	39,446	37,928	29,754						
Goodwill	1,995	1,995	1,995	1,995	1,995	1,995	-						
Deposits	505,135	409,115	459,591	425,325	336,593	280,767	230,053						
FHLB Advances	-	-	-	-	-	12,000	-						
Senior Debt	5,400	6,000	6,000	6,000	-	-	-						
Stockholders' Equity	53,878	49,438	50,462	46,419	48,448	44,469	35,862						
Financial Measures:													
Tangible Book Value per Common Share	15.13	13.99	14.25	13.23	12.17	11.04	10.99						
Tangible Stockholders Equity to Assets Ratio	9.17	% 10.18	% 9.36	% 9.25	% 9.44	% 9.61	% 9.68						
Net Loans to Deposits(1)	72.6	% 87.4	% 80.3	% 78.4	% 92.4	% 96.7	% 92.0						
Capital Ratios:													
Total Risk-based Capital Ratio	13.9	% 14.0	% 13.5	% 14.1	% 14.9	% 15.5	% 15.9						
Tier 1 Risk-based Capital Ratio	12.9	12.9	12.4	13.0	13.7	14.2	14.7						
Leverage Ratio	10.5	11.5	10.1	10.5	12.4	13.1	13.6						
Common Equity Tier 1 Capital to Risk Weighted Assets	12.9	12.9	12.4	13.0	NA	NA	NA						
Asset Quality Ratios:													
Nonperforming Loans to Loans Receivable, net	0.00	% 0.13	% 0.11	% 0.14	% 0.19	% 0.27	% 1.73						
Allowance for Loan Losses to Nonperforming Loans	N/A	931.4	1080.4	859.4	687.9	479.2	88.4						
Nonperforming Assets to Total Assets	0.00	0.10	0.08	0.10	0.15	0.22	1.37						
Net Charge-offs on Loans to Average Loans Receivable, net	0.00	(0.01)	0.19	0.01	0.05	0.06	0.59						
Other Data:													
Number of Banking Offices	1	1	1	1	1	1	1						
Number of full-time equivalent employees	61	52	56	50	47	45	35						
Deposits per Branch	505,135	505,135	459,591	425,325	336,593	280,767	230,053						
Assets per full-time equivalent	9,298	8,982	9,273	9,616	8,250	7,539	7,668						

(1) Total loans receivable, net plus loans held for sale divided by deposits.

UNAUDITED PRO FORMA PER SHARE DATA

The following table sets forth for the Heritage common shares and the Puget Sound common shares certain historical, pro forma and pro forma equivalent per share financial information. The pro forma and pro forma equivalent per share information gives effect to the merger as if the transaction had been effective on the dates presented, in the case of book value data, and as if the transaction had been effective at the beginning of each period shown below, in the case of the earnings and dividend data. The pro forma information in the table assumes that the merger is accounted for under the acquisition method of accounting. The information in the following table is based on, and should be read together with, the historical financial information that Heritage and Puget Sound have presented in prior filings with the SEC. See "Where You Can Find More Information" beginning on page 75.

The pro forma financial information is not necessarily indicative of results that would have occurred had the merger been completed on the date indicated or that may be obtained in the future.

	For the Six Months Ended June 30, 2017	For the Year Ended December 31, 2016
Earnings Per Common Share:		
Historical:		
Heritage		
Basic	\$ 0.71	\$ 1.30
Diluted	0.70	1.30
Puget Sound		
Basic	0.76	1.23
Diluted	0.74	1.22
Pro forma combined (1)		
Basic	0.68	1.23
Diluted	0.68	1.23
Equivalent Pro Forma Puget Sound (2)		
Basic	0.89	1.62
Diluted	0.89	1.62
Dividends Declared Per Common Share:		
Historical:		
Heritage (3)		
	\$ 0.25	\$ 0.72
Puget Sound		
	-	-
Equivalent pro forma Puget Sound (4)		
	0.33	0.95
Book Value Per Common Share:		
Historical:		
Heritage		
	\$ 16.71	\$ 16.08
Puget Sound		
	15.74	14.88
Pro forma combined (1)		
	18.10	17.46
Equivalent pro forma amount of Puget Sound (2)		
	23.89	23.04

Pro forma combined amounts are calculated by adding together the historical amounts reported by Heritage and Puget Sound, as adjusted for the estimated acquisition accounting adjustments to be recorded in connection with the merger and an estimated 4,644,928 Heritage common shares to be issued in connection with the merger based on the terms of the merger agreement.

(2)

The equivalent pro forma per share data for Puget Sound is computed by multiplying the pro forma combined amounts by the exchange ratio of 1.3200.

It is anticipated that the initial pro forma combined dividend rate will be equal to the current dividend rate of (3) Heritage. Accordingly, the pro forma combined dividends per Heritage common share is equal to the historical dividends per common share paid by Heritage.

(4) The equivalent pro forma cash dividends per common share represent the historical cash dividends per common share declared by Heritage and assume no change will occur, multiplied by the exchange ratio of 1.3200.

MARKET PRICE DATA AND DIVIDEND INFORMATION

Comparative Market Price Information

The following table presents trading information for Heritage common shares on Nasdaq and Puget Sound common shares on the OTCQB Marketplace on July 26, 2017, the last trading day prior to the announcement of the signing of the merger agreement, and on November 9, 2017, the last practical trading day for which information was available prior to the date of the printing of this proxy statement/prospectus.

	Historical market value per share of Heritage	Historical market value per share of Puget Sound
July 26, 2017	\$ 27.15	\$ 35.84
November 9, 2017	29.55	35.35

You should obtain current market quotations for Heritage common shares. The market price of Heritage common shares will likely fluctuate between the date of this document and the date on which the merger is completed and after the merger. Because the market price of Heritage common shares is subject to fluctuation, the value of the Heritage common shares that you may receive in the merger may increase or decrease prior to and after the merger.

Historical Market Prices and Dividend Information

Heritage common shares are listed on Nasdaq under the symbol "HFWA." Puget Sound common shares are listed on the OTCQB Marketplace under the symbol "PUGB." The following table sets forth, for the calendar quarters indicated, the high and low sales prices per Heritage common share as reported on Nasdaq and the Puget Sound common shares as reported on the OTCQB Marketplace, and the Heritage quarterly cash dividends per share declared. Puget Sound has not paid any dividends.

	Heritage Market Price		Dividends declared per share	Puget Sound Market Price	
	High	Low		High	Low
Fourth quarter through (November 9, 2017)*	\$ 31.50	\$ 29.20	\$ 0.23	\$ 35.75	\$ 35.35
September 30, 2017	29.70	25.55	0.13	35.90	24.25
June 30, 2017	27.10	23.75	0.13	24.42	23.75
March 31, 2017	26.75	22.75	0.12	23.80	20.00
2016					
December 30, 2016*	\$ 26.10	\$ 17.70	\$ 0.37	\$ 20.00	\$ 17.40
September 30, 2016	18.67	16.92	0.12	18.92	17.60
June 30, 2016	18.45	16.47	0.12	18.83	18.20
March 31, 2016	18.68	16.54	0.11	18.45	17.90
2015					
December 31, 2015*	\$ 19.70	\$ 18.08	\$ 0.21	\$ 18.40	\$ 17.75
September 30, 2015	19.30	17.22	0.11	19.00	16.00
June 30, 2015	17.99	16.76	0.11	15.85	14.70
March 31, 2015	17.16	15.52	0.10	14.95	14.50

*Includes special dividend of \$ 0.10, \$0.25 and \$0.10 per share for the quarters ended December 31, 2017, 2016 and 2015, respectively.

As a bank holding company, Puget Sound's ability to pay dividends is subject to the guidelines of the Federal Reserve Board regarding capital adequacy and dividends. The Federal Reserve Board's policy is that a bank holding company should pay cash dividends only to the extent that its net income for the past year is sufficient to

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cover both the cash dividends and a rate of earnings retention that is consistent with the holding company's capital needs, asset quality and overall financial condition, and that it is inappropriate for a bank holding company experiencing serious financial problems to borrow funds to pay dividends. Under Washington law, Puget Sound is prohibited from paying a dividend if, after making such dividend payment, Puget Sound would be unable to pay its debts as they become due in the usual course of business, or if its total liabilities, plus the amount that would be needed, in the event it were to be dissolved at the time of the dividend payment, to satisfy preferential rights on dissolution of holders of preferred shares ranking senior in right of payment to the capital stock on which the applicable distribution is to be made would exceed its total assets.

The primary source for dividends paid to Puget Sound shareholders is dividends paid to it from Puget Sound Bank. There are regulatory restrictions on the ability of Puget Sound Bank to pay dividends. Under federal regulations, the dollar amount of dividends Puget Sound Bank may pay depends upon its capital position and recent net income. Generally, if Puget Sound Bank satisfies its regulatory capital requirements, it may make dividend payments up to the limits prescribed under state law and FDIC regulations.

As of November 6, 2017 there were 29,929,224 outstanding Heritage common shares held by approximately 1,321 shareholders of record. As of November 6, 2017, there were 3,425,809 outstanding Puget Sound common shares held by approximately 202 holders of record. Puget Sound has not paid any dividends to its shareholders.

THE SPECIAL MEETING OF PUGET SOUND SHAREHOLDERS

This proxy statement/prospectus constitutes the proxy statement of Puget Sound for use at the special meeting of Puget Sound's shareholders to be held on January 4, 2018, at Daniel's Broiler located at 10500 N.E. 8th Street, Bellevue, Washington 98004, at 3:00 p.m., local time, and any adjournments thereof.

At the special meeting, the shareholders of Puget Sound will consider and vote upon (i) approval of the merger agreement; and (ii) approval of the adjournment proposal.

Pursuant to the merger agreement, Puget Sound will merge with and into Heritage, and Puget Sound's wholly owned subsidiary, Puget Sound Bank, will merge with and into Heritage Bank. We expect to complete the merger of Puget Sound with and into Heritage during the quarter ended March 31, 2018.

When we complete the merger, Puget Sound shareholders will receive Heritage common shares as merger consideration, or in a limited circumstance a portion of the merger consideration in cash, for each Puget Sound common share they own, as described in "The Merger Agreement—Consideration to be Received in the Merger" on page 54.

Puget Sound has supplied all information contained in this proxy statement/prospectus with respect to Puget Sound. Heritage has supplied all information contained in this proxy statement/prospectus with respect to Heritage.

This proxy statement/prospectus is first being provided to shareholders of Puget Sound on or about November 20, 2017.

Voting and Proxy Procedure

Shareholders Entitled to Vote.

The close of business on November 6, 2017 was the record date for determining Puget Sound shareholders entitled to receive notice of and to vote at the special meeting. On the record date, there were 3,425,809 Puget Sound common shares outstanding held by 202 holders of record. Puget Sound has no other class of voting securities outstanding. Each holder of Puget Sound common shares is entitled to one vote for each Puget Sound common share in that holder's name on Puget Sound's books as of the record date on any matter submitted to the vote of the Puget Sound shareholders at the special meeting.

If you are a beneficial owner of Puget Sound common shares held by a broker, bank or other nominee (i.e., in "street name"), you will need proof of ownership to be admitted to the special meeting. A recent brokerage statement or letter from a bank or broker are examples of proof of ownership. If you want to vote your Puget Sound common shares held in street name in person at the special meeting, you will have to get a written proxy in your name from the broker, bank or other nominee who holds your shares.

Voting Your Shares.

You can vote your shares using one of the following methods:

- Vote through the Internet at www.proxyvote.com;
- Vote by telephone using the toll-free number shown on the proxy card; or
- Complete and return a written proxy card.

Votes submitted through the Internet or by telephone must be received by 11:59 p.m., Eastern Time, on January 3, 2018. Internet and telephone voting are available 24 hours a day, and if you use one of those methods, you do not need to return a proxy card.

You can also vote in person at the special meeting, and submitting your voting instructions by any of the methods mentioned above will not affect your right to attend the special meeting and vote.

If you have any questions or need assistance with voting, please contact our proxy solicitor, Advantage Proxy, toll free at (877) 870-8565 or collect at (206) 870-8565.

Quorum.

The presence, in person or by proxy, of at least a third of the total number of outstanding Puget Sound common shares entitled to vote is necessary to constitute a quorum at the special meeting. Abstentions and broker non-votes will be counted as shares present and entitled to vote at the special meeting for purposes of determining the existence of a quorum.

Proxies; Proxy Revocation Procedures.

The Puget Sound board of directors solicits proxies so that each shareholder has the opportunity to vote on the merger agreement and any other proposal to be considered at the special meeting. When a proxy card is returned properly signed and dated, the shares represented thereby will be voted in accordance with the instructions on the proxy card. If a shareholder of record attends the special meeting and wishes to vote in person, he or she may vote by ballot. Where no instructions are indicated, proxies will be voted in accordance with the recommendations of the Puget Sound board of directors. The board recommends a vote:

- FOR approval of the merger agreement; and
- FOR the adjournment proposal.

Puget Sound shareholders may revoke a proxy at any time by: (i) sending written notice of revocation to the corporate secretary of Puget Sound prior to the special meeting; (ii) executing and delivering a proxy for the special meeting bearing a later date; or (iii) attending the special meeting and voting in person. Attendance at the special meeting will not automatically revoke a proxy, but a shareholder in attendance may request a ballot and vote in person thereby revoking a prior granted proxy.

Written notices of revocation or other communications about revoking your proxy should be addressed to Puget Sound Bancorp, Attn: Corporate Secretary, 10500 NE 8th Street, Suite 1500, Bellevue, Washington 98004.

Proxies that do not provide the proxy holders with direction in voting on the merger agreement or with respect to the adjournment proposal will be voted in favor of the merger agreement and the adjournment proposal, in accordance with the recommendation of the board of directors of Puget Sound. Puget Sound shareholders who provide no instruction with respect to the merger agreement will not be eligible to assert their dissenters' rights.

Vote Required; Voting Agreements.

The approval of the merger agreement will require the affirmative vote, in person or by proxy, of a majority of the outstanding Puget Sound common shares. The directors and executive officers of Puget Sound and their affiliates hold 17.5% of the outstanding shares entitled to vote.

The directors and executive officers of Puget Sound have entered into voting agreements with Heritage with respect to the Puget Sound common shares they own, in which they have agreed, among other things, to vote, or cause to be voted, all of their Puget Sound common shares in favor of the merger agreement. See the section entitled "The Merger Agreement—Voting Agreements" on page 65. Because approval of the merger agreement requires the affirmative vote of a majority of the outstanding Puget Sound common shares, failure to vote, abstentions and broker non-votes will have the same effect as a vote against the merger agreement.

The adjournment proposal will be approved if a majority of the votes cast at the special meeting are voted in favor of the adjournment proposal. The failure to vote, abstentions and broker non-votes on the adjournment proposal will have no effect on such proposal.

Proxy Solicitation

The accompanying proxy is being solicited by the board of directors of Puget Sound. Puget Sound will bear the entire cost of solicitation of proxies from holders of its common shares. In addition to the solicitation of proxies by mail, certain officers, directors and employees of Puget Sound, without extra remuneration, may also solicit proxies in person, by telephone, facsimile or otherwise. Puget Sound will pay printing, postage and mailing costs of the proxy statement/prospectus. All other costs, including legal and accounting fees, shall be borne by the party incurring such costs. In addition, Puget Sound has engaged Advantage Proxy to assist in distributing proxy materials and soliciting proxies and has agreed to pay a fee of \$4,250, including out-of-pocket expenses, plus \$3.82 per vote transmitted using the Broadridge QuickVote proxy voting application, for its services to be rendered on behalf of Puget Sound.

Security Ownership of Management and Certain Beneficial Owners

The following table sets forth the beneficial ownership of Puget Sound common shares as of September 30, 2017 by (i) each director of Puget Sound, (ii) Puget Sound's executive officers, and (iii) all directors and executive officers of Puget Sound as a group. Unless otherwise specified, the address of each listed shareholder is c/o Puget Sound Bancorp, Inc., 10500 NE 8th Street, Bellevue, Suite 1500, Bellevue, Washington 98004. There is no person or entity who is known by Puget Sound to beneficially own more than 5% of the outstanding Puget Sound common shares. The percentage of beneficial ownership is calculated in relation to the 3,425,434 Puget Sound common shares that were issued and outstanding as of September 30, 2017. Beneficial ownership is determined in accordance with the rules of the SEC, which generally attribute beneficial ownership of securities to persons who possess sole or shared voting or investment power with respect to those securities. There are no Puget Sound common shares issuable pursuant to the exercise of stock options that are exercisable within 60 days of September 30, 2017. The table does not include unvested restricted stock awards as those awards cannot be voted during the vesting period. Unless otherwise indicated, and subject to the voting agreements entered into with Heritage in connection with the merger (see "The Merger Agreement—Voting Agreements"), to Puget Sound's knowledge, the persons or entities identified in the table below have sole voting and investment power with respect to all shares shown as beneficially owned by them.

Name	Number of Shares Beneficially Owned (1)	Percent of Shares Outstanding (%) (2)	
Directors			
Stephen A. Dennis	24,044	(3)0.70%	
Patrick J. Dineen	49,197	1.44	
Thomas E. Leavitt	31,524	(4)0.92	
Lynn Manley	12,775	0.37	
James R. Mitchell	103,807	(5)3.03	
Nancy Pellegrino	4,827	0.14	
Randall H. Quinton	51,994	(6)1.52	
James K. Schuler	123,441	(7)3.60	
James F. Tune	18,191	0.53	
Edward E. Wallace	40,307	1.18	
Robert Wallace	26,939	0.79	
Total for Directors	487,046	14.22%	
Executive Officers			
Sean P. Brennan	45,524	1.33%	
Tony Chalfant	34,288	1.00	
Philip I. Mitterling	32,179	0.94	
Total for Executive Officers	111,991		3.27%
All Executive Officers and Directors as a group (14 persons)	599,037		17.49%

The shares "beneficially owned" include shares owned by or for, among others, the spouse and/or minor children of the individual and any other relative who has the same home as such individual, as well as other shares with respect to which the individual has or shares voting or investment power. Beneficial ownership may be disclaimed as to certain of the shares.

(1) Based on 3,425,434 Puget Sound common shares that were issued and outstanding as of September 30, 2017.

(2) Includes 23,794 shares held as joint tenants with right of survivorship with Mr. Dennis' spouse.

(3) Includes 31,274 shares held as tenants in common with Mr. Leavitt's spouse.

(4) Includes 2,500 shares owned individually by Mr. Mitchell's spouse.

(5) Includes 5,000 shares held in the estate of Mr. Quinton's mother, of which he is the executor.

(6) Includes 13,160 shares owned individually by Mr. Schuler's spouse.

THE MERGER

General

The boards of directors of Heritage and Puget Sound have unanimously approved the merger agreement providing for the merger of Puget Sound with and into Heritage, with Heritage being the surviving entity, and the merger of Puget Sound Bank with and into Heritage Bank, with Heritage Bank being the surviving institution. We expect to complete the merger of Puget Sound with and into Heritage during the quarter ending March 31, 2018.

Background of the Merger

On a regular basis, the Puget Sound board of directors considers the future of Puget Sound and how to maximize value for the Puget Sound shareholders, including continued stand-alone operations, through acquisition and through a potential sale of Puget Sound to a larger institution. The Puget Sound board of directors holds a strategic planning retreat annually. At each retreat, the Puget Sound board of directors considers, among other things, ways to enhance shareholder value. Representatives of Sandler O'Neill participated in the 2016 strategic planning retreat. At such time, the Puget Sound board of directors concluded that there were no possible acquisitions that met Puget Sound's acquisition criteria, and that based on then current bank merger valuations relative to the stand-alone prospects for Puget Sound, remaining independent was the best alternative for Puget Sound's shareholders.

In January 2017, it was noted that the share prices of possible acquirors had increased significantly and that bank merger valuations were also increasing. The Puget Sound board of directors authorized management to contact Sandler O'Neill to inquire whether the increase in bank stock valuations could increase the value Puget Sound might receive in a merger. Sandler O'Neill shared an updated analysis with Puget Sound management which demonstrated the potential for an increase in the value Puget Sound might receive in a merger with a larger institution. Puget Sound management shared this information with the Puget Sound board of directors.

On January 18, 2017, the board of directors of Puget Sound authorized management to engage Sandler O'Neill to contact a select number of financial institutions who the Puget Sound board of directors felt would be a good fit for Puget Sound. In late January 2017, representatives of Sandler O'Neill conducted initial due diligence on Puget Sound.

In mid-February 2017, representatives of Sandler O'Neill began contacting the financial institutions selected by the Puget Sound board of directors. Of the contacts, four, including Heritage, requested and executed a confidentiality agreement, received a package of confidential information regarding Puget Sound and held an introductory meeting with Jim Mitchell, Puget Sound's Chief Executive Officer.

A confidentiality agreement was entered into between Heritage and Puget Sound on February 24, 2017.

On March 1, 2017, Jim Mitchell, Puget Sound's Chief Executive Officer first met with Brian Vance, Heritage's Chief Executive Officer to discuss a potential merger of their two companies.

During March 2017, conversations with all four interested parties, including Heritage, continued.

In early April 2017, representatives of Sandler O'Neill requested that the interested parties verbally describe proposed pricing and form of consideration for a potential acquisition of Puget Sound. In response, one party expressed an inability to achieve a premium valuation and elected not to proceed with further discussions. Party A expressed continued interest, likely in a value range of \$30 to \$33 per Puget Sound common share, but an inability to consummate a transaction until late in 2017. Party B proposed a valuation of approximately \$32 per Puget Sound common share, consisting of stock and cash. Heritage expressed a transaction consisting of 1.2929 Heritage common shares in exchange for each Puget Sound common share, the value of which was equal to approximately \$31.50 per Puget Sound common share at the time.

On April 18, 2017, the Puget Sound board of directors held a special meeting. Representatives of Sandler O'Neill participated in the meeting and presented an update on the conversations to date and the verbal valuations received.

At the meeting, the Puget Sound board of directors determined that Party A's inability to consummate a transaction in a timely fashion introduced significant uncertainty making Party A undesirable. The Puget Sound

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board of directors determined that Heritage and Party B would make a good strategic fit with Puget Sound and that if the value of those proposals could be improved, they would warrant further consideration. The Puget Sound board of directors instructed management and representatives of Sandler O'Neill to provide additional information to Heritage and Party B with the hopes of attracting a higher valuation for Puget Sound shareholders. Discussions with Party A were terminated.

In late April 2017, Puget Sound provided additional due diligence information to Heritage and Party B.

In early May 2017, representatives of Sandler O'Neill, at the direction of Puget Sound management, invited Heritage and Party B to submit non-binding written proposals with increased valuations.

On May 11, 2017, a non-binding letter of interest was provided by Heritage to Puget Sound including an expanded description of deal terms and reflecting an exchange ratio of 1.2929 Heritage common shares for each Puget Sound common share, representing a value of approximately \$32.00 per Puget Sound common share at the time. Also on May 11, 2017, Party B expressed that, at that time, they were not in a position to submit a written proposal, and were uncertain when they might be able to submit a written proposal. However, in no event would they be able to submit a written proposal until they had completed implementation of internal operational improvements.

Puget Sound's corporate development committee, which oversees merger and acquisition activity, and the management team reviewed the written offer from Heritage and the verbal response from Party B with representatives of Sandler O'Neill on May 15, 2017.

On May 17, 2017, a meeting of the Puget Sound board of directors was held to discuss the Heritage offer. Representatives of Sandler O'Neill and Puget Sound's legal counsel, Keller Rohrback L.L.P., or Keller, attended the meeting, and there was a complete discussion of the written offer from Heritage and the verbal response from Party B. The Puget Sound board of directors determined that the inability of Party B to proceed with any acquisition of Puget Sound in the near-term introduced considerable uncertainty and determined that conversations with Party B should cease until Party B could confidently act on a transaction. The Puget Sound board of directors discussed the written proposal from Heritage which was structured as a 100% stock transaction with a fixed exchange ratio of 1.2929 Heritage common shares for each Puget Sound common share with a value of approximately \$32.00 per Puget Sound common share at the time. The Puget Sound corporate development committee recommended to the Puget Sound board of directors that they negotiate further with Heritage, stating that they felt the following factors were compelling: the offer was a strong premium to Puget Sound's stock price; Heritage was a qualified acquiror; Heritage placed an emphasis on retaining many of Puget Sound's talented employees; Heritage common shares trade on Nasdaq which would provide more liquidity to Puget Sound shareholders; and Heritage paid a quarterly cash dividend. Representatives of Sandler O'Neill circulated a financial analysis regarding the proposal, provided history of the proposal, and discussed the structure and went through a financial analysis of the Heritage proposal as compared to the continued stand-alone operation of Puget Sound. The Puget Sound board of directors determined that the value to Puget Sound shareholders of the Heritage proposal meaningfully exceeded the Puget Sound standalone alternative. There followed a lengthy discussion regarding the Heritage proposal. The Puget Sound board of directors determined that the proposed exchange ratio should be increased and that Puget Sound should have the right to exit from the transaction in the event of a severe decline in the value of Heritage common shares. The Puget Sound board of directors instructed representatives of Sandler O'Neill to politely discontinue discussions with Party B and attempt to negotiate an increased exchange ratio and a walk-away right for Puget Sound so that it could terminate the transaction if Heritage's common share price and the value of the merger consideration declined below a certain level prior to closing.

Over the next few days, representatives of Sandler O'Neill contacted Heritage and undertook negotiations on Puget Sound's behalf.

On May 22, 2017, Heritage held a special board meeting to discuss the proposed transaction. Following that meeting, a revised non-binding letter of intent was provided by Heritage to Puget Sound later that day which included an increased exchange ratio of 1.3200 Heritage common shares in exchange for each Puget Sound common share, which was valued at approximately \$32.00 per share at the time and included a 15% symmetrical double-trigger collar and a right for either party to terminate the transaction in the event that the value of the merger consideration was less than \$26.98 per Puget Sound common share based upon the Heritage average closing price for the determination period.

On May 23, 2017, Mr. Vance and Jeff Deuel, Chief Operating Officer of Heritage, met with Mr. Mitchell and Puget Sound directors – Jim Tune, Pat Dineen and Ed Wallace in Bellevue, Washington to make introductions and provide an overview of Heritage and its strategies.

On May 24, 2017, the Puget Sound board of directors held a special meeting to consider the revised non-binding letter of intent received from Heritage. There followed a lengthy discussion regarding the proposal, the opportunities of Puget Sound if it remained standalone, and other technical questions, all of which were discussed with representatives of Sandler O'Neill and Keller who participated in the meeting. Following discussion, the Puget Sound board approved, with some technical changes, the terms of the letter of intent and proceeding with exclusive negotiations with Heritage during the completion of due diligence and negotiation of a definitive agreement.

On May 25, 2017, Heritage provided Puget Sound with the final version of the letter of intent addressing the technical changes requested by Puget Sound and the letter of intent was executed by both parties that day.

During June and July 2017, Heritage and Puget Sound, with the assistance of legal, financial and accounting advisors conducted mutual due diligence.

On June 26, 2017, there was a due diligence meeting in Seattle, Washington with Brian Vance, Jeff Deuel, Don Hinson, Dave Spurling and Bryan McDonald of Heritage and Jim Mitchell, Sean Brennan, Philip Mitterling, and Tony Chalfant of Puget Sound to make introductions, share information about the two banks' strategies, and begin discussions about integration including individual meetings between counterparts.

On July 6, 2017, there was a meeting in Olympia, Washington with Brian Vance, Jeff Deuel, Don Hinson, Bryan McDonald, Cindy Huntley, Lisa Banner, Tom Henning, Dave Spurling, Sabrina Robison and Kaylene Lahn of Heritage and Jim Mitchell, Phil Mitterling, Tony Chalfant and Sean Brennan of Puget Sound to perform additional due diligence.

On July 10, 2017, there were individual meetings between Jim Mitchell, Sean Brennan, Tony Chalfant and Phil Mitterling of Puget Sound with Heritage's Jeff Deuel and Human Resources Director, Sabrina Robison, in Bellevue, Washington. In addition, at that time, an extension to the letter of interest was signed by the parties.

On July 14, 2017, Puget Sound received a draft of the definitive merger agreement and over the next several days, the document was negotiated by Heritage, Puget Sound and their respective advisors.

On July 18, 2017 Heritage representatives Brian Vance and Jeff Deuel and Heritage directors, Brian Charneski and Jeff Lyon interviewed two Puget Sound directors for a potential Heritage board seat. In addition, Jeff Deuel met with Jim Mitchell, Sean Brennan and Tony Chalfant in Bellevue, Washington

On July 24, 2017, Puget Sound provided its disclosure schedules to Heritage.

On July 25, 2017, Heritage's board of directors approved the merger agreement contingent upon the approval by the Puget Sound board of directors.

On July 26, 2017, Heritage provided its final disclosure schedules to Puget Sound, Puget Sound's key executives entered into employment agreements with Heritage Bank, its directors entered into non-compete agreements with Heritage, and its executive officers and directors entered into voting agreements with Heritage.

On July 26, 2017, the Puget Sound board of directors met to approve the final merger agreement. At the meeting, Keller reviewed the merger agreement in detail with the board, after which questions were asked and answered. Representatives of Sandler O'Neill then reviewed the financial aspects of the proposed merger and rendered to Puget Sound's board of directors its opinion, which was subsequently confirmed in writing on July 26, 2017, to the effect

that, as of that date and subject to the procedures followed, assumptions made, matters considered, and qualifications and limitations on the review undertaken by Sandler O'Neill as set forth in such opinion, the exchange ratio in the merger was fair, from a financial point of view, to the holders of Puget Sound common shares. Having fully discussed the terms of the final merger agreement from both a legal and financial point of view, the Puget Sound board of directors unanimously approved the merger agreement.

On July 26, 2017, the merger agreement was executed by both parties.

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Recommendation of the Puget Sound Board of Directors and Reasons of Puget Sound for the Merger

After careful consideration, at a meeting held on July 26, 2017, Puget Sound's board of directors unanimously determined that the merger agreement, including the merger and the other transactions contemplated thereby, is in the best interests of Puget Sound and its shareholders. Accordingly, Puget Sound's board of directors unanimously approved the merger agreement and recommends that Puget Sound's shareholders vote "FOR" approval of the merger agreement and "FOR" approval of the adjournment proposal.

In reaching its decision to approve the merger agreement, the merger and the other transactions contemplated by the merger agreement and recommend that its shareholders vote "FOR" the approval of the merger agreement, the Puget Sound board of directors evaluated the merger agreement, the merger and the other transactions contemplated by the merger agreement in consultation with Puget Sound management, as well as Puget Sound's independent financial and legal advisors, and considered a number of factors, including the following material factors:

- its knowledge of Puget Sound's business, operations, financial condition, asset quality, earnings, loan portfolio, capital and prospects both as an independent organization, and as a part of a combined company with Heritage;
- its understanding of Heritage's business, operations, regulatory and financial condition, asset quality, earnings, capital and prospects taking into account publicly available information and information furnished by Heritage;
- its belief that the merger will result in a stronger banking franchise with a diversified revenue stream, strong capital ratios, a well-balanced loan portfolio and an attractive funding base that has the potential to deliver enhanced value to Puget Sound's shareholders as compared to continuing to operate as a stand-alone entity;
- its belief that the two companies share a common vision of the importance of customer service and local decision-making and that management and employees of Puget Sound and Heritage possess complementary skills and expertise, which it believes should facilitate integration and implementation of the transaction;
- the expanded possibilities, including organic growth and future acquisitions, that would be available to Heritage, given its larger size, asset base, capital, market capitalization, trading liquidity and footprint;
- the anticipated pro form financial impact of the merger on Heritage, including potential synergies, and the expected impact on financial metrics such as earnings and tangible equity per share, as well as on regulatory capital levels;
- the financial presentation, dated July 26, 2017, of Sandler O'Neill to the Puget Sound board of directors and the opinion, dated July 26, 2017, of Sandler O'Neill to the Puget Sound board of directors as to the fairness, from a financial point of view and as of the date of the opinion, to the holders of Puget Sound common shares of the exchange ratio in the proposed merger, as more fully described below under "--Opinion of Puget Sound's Financial Advisor;"
- the benefits to Puget Sound and its customers of operating as a larger organization, including enhancements in products and services, higher lending limits, and greater financial resources;
- the increasing importance of operational scale and financial resources in maintaining efficiency and remaining competitive over the long term and in being able to capitalize on technological developments which significantly impact industry competitive conditions;
- the expected social and economic impact of the merger on the constituencies served by Puget Sound, including its borrowers, customers, depositors, employees, suppliers and communities;
- its understanding of the current and prospective environment in which Puget Sound and Heritage operate, including national and local economic conditions, the interest rate environment, increasing

operating costs resulting from regulatory initiatives and compliance mandates, the continued rapid consolidation in the financial services industry and the competitive effects of the increased consolidation on smaller financial institutions such as Puget Sound;

- the ability of Heritage to complete the merger;
- the equity interest in the combined company that Puget Sound's existing shareholders will receive in the merger, which allows such shareholders to continue to participate in the future success of the combined company;
- the greater market capitalization and trading liquidity of Heritage common shares in the event that Puget Sound shareholders desire to sell the Heritage common shares to be received by them following completion of the merger;
- that Heritage has paid cash dividends on its common shares;
- its understanding that the merger will qualify as a "reorganization" under the Code, providing favorable tax consequences to Puget Sound's shareholders in the merger; and

Puget Sound's review with Puget Sound's independent legal advisor, Keller Rohrback, of the material terms of the merger agreement, including the board's ability, under certain circumstances, to withhold, withdraw, qualify or modify its recommendation to Puget Sound's shareholders and to consider and pursue a better unsolicited acquisition proposal, subject to the payment by Puget Sound of a termination fee of \$4,250,000 to Heritage, which the board of directors concluded was reasonable in the context of termination fees in comparable transactions and in light of the overall terms of the merger agreement, as well as the nature of the covenants, representations and warranties and termination provisions in the merger agreement.

The Puget Sound board of directors also considered a number of potential risks and uncertainties associated with the merger in connection with its deliberation of the proposed transaction, including, without limitation, the following:

- the potential risk of diverting management attention and resources from the operation of Puget Sound's business and towards the completion of the merger;
- the restrictions on the conduct of Puget Sound's business prior to the completion of the merger, which are customary for merger agreements involving financial institutions, but which, subject to specific exceptions, could delay or prevent Puget Sound from undertaking business opportunities that may arise or any other action it would otherwise take with respect to the operations of Puget Sound absent the pending merger;
- the potential risks associated with achieving anticipated cost savings and successfully integrating Puget Sound's business, operations and workforce with those of Heritage;
- the merger-related costs;
- the fact that the interests of Puget Sound's directors and executive officers may be different from, or in addition to, the interests of Puget Sound's other shareholders as described below under the heading "–Interests of Certain Persons in the Merger";

the fact that, while Puget Sound expects that the merger will be consummated, there can be no assurance that all conditions to the parties' obligations to complete the merger agreement will be satisfied, including the risk that necessary regulatory approvals of the merger and the bank merger or the Puget Sound shareholder approval of the merger agreement might not be obtained and, as a result, the merger may not be consummated;

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the risk of potential employee attrition and/or adverse effects on business and customer relationships as a result of the pending merger;

the fact that: (i) Puget Sound would be prohibited from affirmatively soliciting acquisition proposals after execution of the merger agreement; and (ii) Puget Sound would be obligated to pay to Heritage a termination fee of \$4,250,000 if the merger agreement is terminated under certain circumstances, all of which may discourage other parties potentially interested in a business combination with Puget Sound from pursuing such a transaction; and

- the other risks described under the section entitled "Risk Factors."

The foregoing discussion of the information and factors considered by the Puget Sound board of directors is not intended to be exhaustive, but includes the material factors considered by the Puget Sound board of directors. In reaching its decision to approve the merger agreement, the merger and the other transactions contemplated by the merger agreement, the Puget Sound board of directors did not quantify or assign any relative weights to the specific factors it considered, and individual directors may have given different weights to different factors. The Puget Sound board of directors considered all these factors as a whole, and overall considered the factors to be favorable to, and to support, its determination.

Puget Sound's board of directors unanimously approved the merger agreement and recommends that Puget Sound's shareholders vote "FOR" approval of the merger agreement and "FOR" approval of the adjournment proposal. Puget Sound shareholders should be aware that Puget Sound's directors and executive officers have interests in the merger that are different from, or in addition to, those of other Puget Sound shareholders. The Puget Sound board of directors was aware of and considered these interests, among other matters, in evaluating and negotiating the merger agreement, and in recommending that the shareholders of Puget Sound approve the merger agreement. See "—Interests of Certain Persons in the Merger."

This summary of the reasoning of Puget Sound's board of directors and other information presented in this section is forward-looking in nature and, therefore, should be read in light of the factors discussed under the section entitled "Cautionary Statement Regarding Forward-Looking Statements."

Opinion of Puget Sound's Financial Advisor

Puget Sound retained Sandler O'Neill to act as an independent financial advisor to Puget Sound's board of directors in connection with Puget Sound's consideration of a possible business combination. Sandler O'Neill is a nationally recognized investment banking firm whose principal business specialty is financial institutions. In the ordinary course of its investment banking business, Sandler O'Neill is regularly engaged in the valuation of financial institutions and their securities in connection with mergers and acquisitions and other corporate transactions.

Sandler O'Neill acted as an independent financial advisor in connection with the proposed transaction and participated in certain of the negotiations leading to the execution of the merger agreement. At the July 26, 2017 meeting at which Puget Sound's board of directors considered and discussed the terms of the merger agreement and the merger, Sandler O'Neill delivered to Puget Sound's board of directors its oral opinion, which was subsequently confirmed in writing, to the effect that, as of July 26, 2017, the exchange ratio provided for in the merger agreement was fair to the holders of Puget Sound common shares from a financial point of view. The full text of Sandler O'Neill's opinion is attached as Appendix B to this proxy statement/prospectus. The opinion outlines the procedures followed, assumptions made, matters considered and qualifications and limitations on the review undertaken by Sandler O'Neill in rendering its opinion. The description of the opinion set forth below is qualified in its entirety by reference to the full text of the opinion. Holders of Puget Sound common shares are urged to read the entire opinion carefully in connection with their consideration of the proposed merger.

Sandler O'Neill's opinion speaks only as of the date of the opinion. The opinion was directed to Puget Sound's board of directors in connection with its consideration of the merger agreement and the merger and does not constitute a recommendation to any shareholder of Puget Sound as to how any such shareholder should vote at any meeting of shareholders called to consider and vote upon the approval of the merger agreement and the merger. Sandler O'Neill's opinion was directed only to the fairness, from a financial point of view, of the exchange ratio to the holders of Puget Sound common shares and does not address the underlying business decision of Puget Sound to engage in the merger, the form or structure of the merger or any other transactions contemplated in the merger agreement, the relative merits of the merger as compared to any other alternative transactions or business strategies that might exist for Puget Sound or the effect of any other transaction in which Puget Sound might engage. Sandler O'Neill did not express any opinion as to the fairness of the amount or nature of the compensation to be received in the merger by any officer, director or

employee of Puget Sound or Heritage, or any class of such persons, if any, relative to the compensation to be received in the merger by any other shareholder, including the exchange ratio to be received by the holders of Puget Sound common shares. Sandler O'Neill's opinion was approved by Sandler O'Neill's fairness opinion committee.

In connection with its opinion, Sandler O'Neill reviewed and considered, among other things:

- a draft of the merger agreement, dated July 24, 2017;
- certain publicly available financial statements and other historical financial information of Puget Sound that Sandler O'Neill deemed relevant;
- certain publicly available financial statements and other historical financial information of Heritage that Sandler O'Neill deemed relevant;
- certain internal financial projections for Puget Sound for the years ending December 31, 2017 through December 31, 2019, as provided by the management of Puget Sound, as well as an estimated long-term earnings per share growth rate for the years thereafter, as directed by the management of Puget Sound;
- publicly available consensus mean analyst earnings per share estimates for Heritage for the years ending December 31, 2017 and December 31, 2018, as well as an estimated long-term earnings per share growth rate and dividend payout ratio for the years thereafter, as directed by the senior management of Heritage and their representatives;
- the pro forma financial impact of the merger on Heritage based on certain assumptions relating to purchase accounting adjustments, cost savings and transaction expenses, as provided by the management of Heritage and their representatives;
- the publicly reported historical price and trading activity for Puget Sound and Heritage common shares, including a comparison of certain stock market information for Puget Sound and Heritage common shares and certain share indices as well as publicly available information for certain other similar companies, the securities of which are publicly traded;
- a comparison of certain financial information for Puget Sound and Heritage with similar financial institutions for which information is publicly available;
- the financial terms of certain recent business combinations in the banking industry (on a nationwide basis), to the extent publicly available;
- the current market environment generally and the banking environment in particular; and
- such other information, financial studies, analyses and investigations and financial, economic and market criteria as Sandler O'Neill considered relevant.

Sandler O'Neill also discussed with certain members of the senior management of Puget Sound the business, financial condition, results of operations and prospects of Puget Sound and held similar discussions with certain members of the senior management of Heritage regarding the business, financial condition, results of operations and prospects of Heritage.

In performing its review, Sandler O'Neill relied upon the accuracy and completeness of all of the financial and other information that was available to and reviewed by Sandler O'Neill from public sources, that was provided to Sandler O'Neill by Puget Sound or Heritage or their respective representatives or that was otherwise reviewed by Sandler O'Neill, and Sandler O'Neill assumed such accuracy and completeness for purposes of rendering its opinion without any independent verification or investigation. Sandler O'Neill relied on the assurances of the respective managements of Puget Sound and Heritage that they were not aware of any facts or circumstances that would have made any of such information inaccurate or misleading. Sandler O'Neill was not asked to and did not undertake an independent verification of any of such information and Sandler O'Neill did not assume any responsibility or liability for the accuracy or completeness thereof. Sandler O'Neill did not make an independent evaluation or

perform an appraisal of the specific assets, the collateral securing assets or the liabilities (contingent or otherwise) of Puget Sound, or Heritage, or any of their respective subsidiaries, nor was Sandler O'Neill furnished with any such evaluations or appraisals. Sandler O'Neill rendered no opinion or evaluation on the collectability of any assets or the future performance of any loans of Puget Sound or Heritage. Sandler O'Neill did not make an independent evaluation of the adequacy of the allowance for loan losses of Puget Sound or Heritage or the combined entity after the merger and Sandler O'Neill did not review any individual credit files relating to Puget Sound or Heritage. Sandler O'Neill assumed, with Puget Sound's consent, that the respective allowances for loan losses for both Puget Sound and Heritage were adequate to cover such losses and would be adequate on a pro forma basis for the combined entity.

In preparing its analyses, Sandler O'Neill used certain internal financial projections for Puget Sound for the years ending December 31, 2017 through December 31, 2019, as provided by the management of Puget Sound, as well as an estimated long-term earnings per share growth rate for the years thereafter, as directed by the management of Puget Sound. In addition, Sandler O'Neill used publicly available consensus mean analyst earnings per share estimates for Heritage for the years ending December 31, 2017 and December 31, 2018, as well as an estimated long-term earnings per share growth rate and dividend payout ratio for the years thereafter, as directed by the management of Heritage and their representatives. Sandler O'Neill also received and used in its pro forma analyses certain assumptions relating to purchase accounting adjustments, cost savings and transaction expenses, as provided by the management of Heritage and their representatives. With respect to the foregoing information, the respective managements of Puget Sound and Heritage confirmed to Sandler O'Neill that such information reflected (or, in the case of the publicly available consensus mean analyst earnings per share estimates referred to above, were consistent with) the best currently available projections, estimates and judgments of those respective managements as to the future financial performance of Puget Sound and Heritage, respectively, and the other matters covered thereby, and Sandler O'Neill assumed that the future financial performance reflected in such information would be achieved. Sandler O'Neill expressed no opinion as to such information, or the assumptions on which such information was based. Sandler O'Neill also assumed that there had been no material change in the respective assets, financial condition, results of operations, business or prospects of Puget Sound or Heritage since the date of the most recent financial statements made available to Sandler O'Neill. Sandler O'Neill assumed in all respects material to its analysis that Puget Sound and Heritage would remain as going concerns for all periods relevant to Sandler O'Neill's analysis.

Sandler O'Neill also assumed, with Puget Sound's consent, that (i) each of the parties to the merger agreement would comply in all material respects with all material terms and conditions of the merger agreement and all related agreements, that all of the representations and warranties contained in such agreements were true and correct in all material respects, that each of the parties to such agreements would perform in all material respects all of the covenants and other obligations required to be performed by such party under such agreements and that the conditions precedent in such agreements were not and would not be waived, (ii) in the course of obtaining the necessary regulatory or third party approvals, consents and releases with respect to the merger, no delay, limitation, restriction or condition would be imposed that would have an adverse effect on Puget Sound, Heritage or the merger or any related transaction, (iii) the merger and any related transaction would be consummated in accordance with the terms of the merger agreement without any waiver, modification or amendment of any material term, condition or agreement thereof and in compliance with all applicable laws and other requirements, and (iv) the merger would qualify as a tax-free reorganization for federal income tax purposes. Finally, with Puget Sound's consent, Sandler O'Neill relied upon the advice that Puget Sound received from its legal, accounting and tax advisors as to all legal, accounting and tax matters relating to the merger and the other transactions contemplated by the merger agreement. Sandler O'Neill expressed no opinion as to any such matters.

Sandler O'Neill's opinion was necessarily based on financial, economic, market and other conditions as in effect on, and the information made available to Sandler O'Neill as of, the date thereof. Events occurring after the date thereof could materially affect Sandler O'Neill's opinion. Sandler O'Neill has not undertaken to update, revise, reaffirm or withdraw its opinion or otherwise comment upon events occurring after the date thereof. Sandler O'Neill expressed no opinion as to the trading values of Puget Sound common shares or Heritage common shares at any time or what the value of Heritage common shares would be once it is actually received by the holders of Puget Sound common shares.

In rendering its opinion, Sandler O'Neill performed a variety of financial analyses. The summary below is not a complete description of the analyses underlying Sandler O'Neill's opinion or the presentation made by Sandler O'Neill to Puget Sound's board of directors, but is a summary of all material analyses performed and presented by Sandler O'Neill. The summary includes information presented in tabular format. In order to fully understand the

financial analyses, these tables must be read together with the accompanying text. The tables alone do not constitute a complete description of the financial analyses. The preparation of a fairness opinion is a complex process involving subjective judgments as to the most appropriate and relevant methods of financial analysis and the application of those methods to the particular circumstances. The process, therefore, is not necessarily susceptible to a partial analysis or summary description. Sandler O'Neill believes that its analyses must be considered as a whole and that selecting portions of the factors and analyses to be considered without considering all factors and analyses, or attempting to ascribe relative weights to some or all such factors and analyses, could create an incomplete view of the evaluation process underlying its opinion. Also, no company included in Sandler O'Neill's comparative analyses described below is identical to Puget Sound or Heritage and no transaction is identical to the merger. Accordingly, an analysis of comparable companies or transactions involves complex considerations and judgments concerning differences in financial and operating characteristics of the companies and other factors that could affect the public trading values or merger transaction values, as the case may be, of Puget Sound and Heritage and the companies to which they are being compared. In arriving at its opinion, Sandler O'Neill did not attribute any particular weight to any analysis or factor that it considered. Rather, Sandler O'Neill made qualitative judgments as to the significance and relevance of each analysis and factor. Sandler O'Neill did not form an opinion as to whether any individual analysis or factor (positive or negative) considered in isolation supported or failed to support its opinion, rather, Sandler O'Neill made its determination as to the fairness of the exchange ratio on the basis of its experience and professional judgment after considering the results of all its analyses taken as a whole.

In performing its analyses, Sandler O'Neill also made numerous assumptions with respect to industry performance, business and economic conditions and various other matters, many of which are beyond the control of Puget Sound, Heritage and Sandler O'Neill. The analyses performed by Sandler O'Neill are not necessarily indicative of actual values or future results, both of which may be significantly more or less favorable than suggested by such analyses. Sandler O'Neill prepared its analyses solely for purposes of rendering its opinion and provided such analyses to Puget Sound's board of directors at its July 26, 2017 meeting. Estimates on the values of companies do not purport to be appraisals or necessarily reflect the prices at which companies or their securities may actually be sold. Such estimates are inherently subject to uncertainty and actual values may be materially different. Accordingly, Sandler O'Neill's analyses do not necessarily reflect the value of Puget Sound common shares or the prices at which Puget Sound common shares or Heritage common shares may be sold at any time. The analyses of Sandler O'Neill and its opinion were among a number of factors taken into consideration by Puget Sound's board of directors in making its determination to approve the merger agreement and should not be viewed as determinative of the exchange ratio or the decision of Puget Sound's board of directors or management with respect to the fairness of the merger. The type and amount of consideration payable in the merger were determined through negotiation between Puget Sound and Heritage.

Summary of Implied Exchange Ratio and Implied Transaction Metrics. Sandler O'Neill reviewed the financial terms of the proposed merger. Subject to certain adjustments and termination provisions, as more fully described in the merger agreement, at the effective time, each share of Puget Sound common shares issued and outstanding prior to the effective time, except for certain shares of Puget Sound common shares as specified in the merger agreement, will be converted into the right to receive a number of shares of the common shares of Heritage equal to the exchange ratio. Based on the closing price of Heritage common shares on July 25, 2017 of \$26.70 and a per share exchange ratio of 1.3200, Sandler O'Neill calculated an implied transaction price per share of Puget Sound common shares of \$35.24 and an aggregate implied transaction value of approximately \$124.1 million in exchange for all Puget Sound common shares and unvested restricted stock issued and outstanding as of March 31, 2017. Based upon historical financial information for Puget Sound as of or for the last twelve months ("LTM") ended June 30, 2017, Sandler O'Neill calculated the following implied transaction metrics.

Transaction Price / Last Twelve Months Earnings Per Share of Puget Sound:	25.7x
Transaction Price / Tangible Book Value Per Share of Puget Sound:	233%
Tangible Book Premium / Core Deposits ¹ :	14.7%
One Day Market Premium to July 25, 2017 Puget Sound Closing Stock Price:	44.1%

Note:

1: Core deposits calculated as total deposits less CD's greater than \$100,000

Puget Sound Comparable Company Analyses. Sandler O'Neill used publicly available information to compare selected financial information for Puget Sound with a group of financial institutions selected by Sandler O'Neill (the "Puget Sound Peer Group"). The Puget Sound Peer Group consisted of publicly traded banks

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headquartered in the Western Region operating in metropolitan areas with total assets between \$300 million and \$2 billion and with a loan portfolio comprised of more than 20% commercial and industrial loans, excluding announced merger targets. The Puget Sound Peer Group consisted of the following companies:

American Business Bank	Northwest Bancorporation, Inc.
Pacific Mercantile Bancorp	CommerceWest Bank
California Bancorp	Premier Commercial Bancorp
Avidbank Holdings, Inc.	Commencement Bank
Presidio Bank	CBBC Bancorp

The analysis compared publicly available financial information for Puget Sound as of or for the LTM period ended June 30, 2017 with the corresponding publicly available data for the Puget Sound Peer Group as of or for the LTM period ended March 31, 2017, with pricing data as of July 25, 2017. The table below sets forth the data for Puget Sound and the high, low, median and mean data for the Puget Sound Peer Group.

	Puget Sound Peer Group				
	PUGB	Mean	Median	High	Low
Total Assets (in millions)	\$ 567	\$ 734	\$ 667	\$ 1,819	\$ 306
Market Value (in millions)	\$ 84	\$ 115	\$ 97	\$ 290	\$ 45
Price/Tangible Book Value	162 %	153 %	149 %	191 %	125 %
Price/LTM Earnings Per Share	17.8 x	18.2x	17.4 x	24.6 x	12.9 x
Current Dividend Yield	0.0 %	0.3 %	0.0 %	3.0 %	0.0 %
One-Year Stock Price Change	29.7 %	36.0%	33.6 %	53.2 %	25.7 %
LTM Efficiency Ratio	60 %	66 %	65 %	93 %	55 %
LTM Net interest Margin	3.57 %	3.91%	4.11 %	4.35 %	3.00 %
LTM Return on Average Assets	0.90 %	0.52%	0.87 %	1.16 %	(2.94%)
LTM Return on Average Tangible Equity	9.4 %	5.7 %	9.1 %	13.5 %	(28.2%)
Tangible Common Equity/Tangible Assets	9.2 %	9.6 %	9.5 %	11.6 %	7.7 %
Commercial & Industrial Loans/ Loans	43 %	30 %	29 %	42 %	20 %
Loans/Deposits	73 %	88 %	91 %	103 %	54 %
Non-performing Assets/Total Assets	0.00 %	0.55%	0.14 %	2.18 %	0.00 %
Non-interest bearing deposits / deposits	44 %	39 %	37 %	55 %	29 %

Puget Sound Stock Trading History. Sandler O'Neill reviewed the historical stock price performance of Puget Sound common shares for the one-year and three-year periods ended July 25, 2017. Sandler O'Neill then compared the relationship between the stock price performance of Puget Sound's common shares to movements in the Puget Sound Peer Group as well as certain stock indices.

Puget Sound One-Year Price Performance

	Beginning July 25, 2016	Ending July 25, 2017
Puget Sound	100.0%	129.7%
Puget Sound Peer Group	100.0%	133.6%
NASDAQ Bank	100.0%	134.5%
S&P 500	100.0%	114.2%

Puget Sound Three-Year Price Performance

	Beginning July 25, 2014	Ending July 25, 2017
Puget Sound	100.0%	174.0%
Puget Sound Peer Group	100.0%	167.8%
NASDAQ Bank	100.0%	149.8%
S&P 500	100.0%	125.2%

Puget Sound Net Present Value Analyses. Sandler O'Neill performed an analysis that estimated the net present value per Puget Sound common share assuming Puget Sound performed in accordance with internal financial projections for the years ending December 31, 2017 through December 31, 2019, as provided by the management of Puget Sound, as well as an estimated long-term earnings per share growth rate for the years thereafter, as directed by the management of Puget Sound. To approximate the terminal value of a Puget Sound common share at December 31, 2021, Sandler O'Neill applied price to 2021 earnings per share multiples ranging from 13.0x to 23.0x and price to December 31, 2021 tangible book value per share multiples ranging from 130% to 195%. The terminal values were then discounted to present values using different discount rates ranging from 10.0% to 15.0% which were chosen to reflect different assumptions regarding required rates of return of holders or prospective buyers of Puget Sound common shares. As illustrated in the following tables, the analysis indicated an imputed range of values per Puget Sound common share of \$17.13 to \$37.02 when applying multiples of earnings per share and \$16.92 to \$30.99 when applying multiples of tangible book value per share.

Earnings Per Share Multiples

Discount Rate	13.0 x	15.0 x	17.0 x	19.0 x	21.0 x	23.0 x
10.0 %	\$20.92	\$24.14	\$27.36	\$30.58	\$33.80	\$37.02
11.0 %	\$20.09	\$23.18	\$26.27	\$29.36	\$32.45	\$35.54
12.0 %	\$19.29	\$22.26	\$25.23	\$28.20	\$31.17	\$34.13
13.0 %	\$18.54	\$21.39	\$24.24	\$27.09	\$29.94	\$32.80
14.0 %	\$17.82	\$20.56	\$23.30	\$26.04	\$28.78	\$31.52
15.0 %	\$17.13	\$19.76	\$22.40	\$25.04	\$27.67	\$30.31

Tangible Book Value Per Share Multiples

Discount Rate	130 %	143 %	156 %	169 %	182 %	195 %
10.0 %	\$20.66	\$22.73	\$24.80	\$26.86	\$28.93	\$30.99
11.0 %	\$19.84	\$21.82	\$23.81	\$25.79	\$27.77	\$29.76
12.0 %	\$19.05	\$20.96	\$22.86	\$24.77	\$26.68	\$28.58
13.0 %	\$18.31	\$20.14	\$21.97	\$23.80	\$25.63	\$27.46
14.0 %	\$17.59	\$19.35	\$21.11	\$22.87	\$24.63	\$26.39
15.0 %	\$16.92	\$18.61	\$20.30	\$21.99	\$23.68	\$25.38

Sandler O'Neill also considered and discussed with the Puget Sound board of directors how this analysis would be affected by changes in the underlying assumptions, including variations with respect to net income. To illustrate this impact, Sandler O'Neill performed a similar analysis assuming Puget Sound's earnings per share varied from 15% above projections to 15% below projections. This analysis resulted in the following range of values for each Puget

Sound common share, applying the price to 2021 earnings per share multiples range of 13.0x to 23.0x referred to above and a discount rate of 12.95%.

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Earnings Per Share Multiples				
Variance				
to Base	13.0x	15.0x	17.0x	19.0x