

HERITAGE FINANCIAL CORP /WA/

Form S-4

October 19, 2017

As filed with the Securities and Exchange Commission on October 19, 2017.

Registration No. 333-

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SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM S-4  
REGISTRATION STATEMENT  
UNDER THE SECURITIES ACT OF 1933  
HERITAGE FINANCIAL CORPORATION  
(Exact name of registrant as specified in its charter)

Washington 6021 91-1857900  
(State or other jurisdiction of (Primary Standard Industrial (I.R.S. Employer  
incorporation or organization) Classification Code Number) Identification No.)

201 Fifth Avenue SW  
Olympia, Washington 98501  
(360) 943-1500

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

Kaylene M. Lahn  
Senior Vice President and Corporate Secretary  
Heritage Financial Corporation  
201 Fifth Avenue SW  
Olympia, Washington 98501  
(360) 943-1500

(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies of communications to:

John F. Breyer, Jr., Esq. Breyer & Associates PC 8180 Greensboro Drive, Suite 785 McLean, Virginia 22102 (703) 883-1100	Glen P. Garrison, Esq. Keller Rohrback L.L.P. 1201 3rd Avenue, Suite 3200 Seattle, Washington 98101 (206) 623-1900
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Approximate date of commencement of the proposed sale of the securities to the public: As soon as practicable after the effective date of this Registration Statement and upon consummation of the transactions described herein.

If the securities being registered on this Form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box. [ ]

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration

statement for the same offering. [ ]

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ]

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

Large accelerated filer [ ] Accelerated Filer [X]

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

Emerging growth company [ ]

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 7(a)(2)(B) of the Securities Act.

If applicable, place an X in the box to designate the appropriate rule provision relied upon in conducting this transaction:

Exchange Act Rule 13e-4(i) (Cross-Border Issuer Tender Offer) [ ]

Exchange Act Rule 14d-1(d) (Cross-Border Third-Party Tender Offer) [ ]

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CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Amount to be registered (1)	Proposed maximum offering price per share	Proposed maximum aggregate offering price (2)	Amount of registration fee (3)
Common Stock, no par value shares	5,806,864	N/A	\$ 125,078,768	\$ 15,573

- (1) Represents the maximum number of common shares of Heritage Financial Corporation ("Heritage") estimated to be issuable upon completion of the merger with Puget Sound Bancorp, Inc. ("Puget Sound"). This number represents the sum of the product of (i) an exchange ratio of 1.6502 and (ii) 3,518,885, which is the number of Puget Sound's common shares outstanding as of July 26, 2017 (including Puget Sound's outstanding restricted common shares as of July 26, 2017), in each case, pursuant to the terms of the Agreement and Plan of Merger, dated as of July 26, 2017, by and among Puget Sound and Heritage, which is attached to the proxy statement/prospectus as Appendix A.
- (2) Estimated solely for the purpose of calculating the registration fee required by Section 6(b) of the Securities Act of 1933, as amended, and computed pursuant to Rules 457(f) and 457(c) under the Securities Act, based upon the market value of Puget Sound common shares in accordance with Rules 457(c) and 457(f) under the Securities Act as follows: (a) the product of (i) \$35.545, the average of the high and low prices per Puget Sound's common shares as reported on the OTCQB Marketplace on October 16, 2017 and (ii) 3,518,885, the estimated maximum number of Puget Sound common shares that may be exchanged for shares of Heritage common shares.
- (3) Calculated in accordance with Rule 457(f) under the Securities Act by multiplying the proposed maximum aggregate offering price by 0.0001245.

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The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment that specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until the registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

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The information in this proxy statement/prospectus is not complete and may be changed. We may not issue the securities offered by this proxy statement/prospectus until the registration statement filed with the Securities and Exchange Commission is effective. This document is not an offer to sell these securities, and we are not soliciting an offer to buy these securities, in any jurisdiction where the offer or sale is not permitted.

PRELIMINARY PROXY STATEMENT/PROSPECTUS—SUBJECT TO COMPLETION—DATED [ ], 2017

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 [ ], 2017, at [ ] a.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, the average closing stock price of Heritage for the 20 consecutive trading days ending as of the date of this proxy statement/prospectus was \$[ ], [greater] than \$27.66 and [ ]% [higher] than \$24.05. The average closing value of the KBW Index during the same 20 day period was [ ], [ ]% [higher] than 102.20. In this case, even though the average price of Heritage is greater than \$27.66, the 20 day average closing price of Heritage as compared to \$24.05 is not 15% greater than the average closing value of the KBW Index during the same 20 day period as compared to 102.20. As a result, the exchange ratio was equal to 1.3200 and valued at \$[ ] per Puget Sound share or approximately \$[ ] million in the aggregate based on Heritage's closing stock price of \$[ ] as of [ ]. The final exchange ratio will not be known until the determination period is completed.

You should obtain current stock quotations for Heritage common shares and Puget Sound common shares. Heritage common shares trade on Nasdaq under the symbol of "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 current issued and outstanding Heritage common shares 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 [ ]% of Heritage's common shares (ignoring any shares of 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 [ ], 2017 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 [ ]. The 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 [ ].

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/prospectus. Any representation to the contrary is a criminal offense.

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 [ ], 2017 and is first being mailed to Puget Sound shareholders or otherwise delivered to Puget Sound shareholders on or about [ ], 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](http://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 [·], 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 [ ], 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 [ ].

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

NOTICE OF SPECIAL MEETING OF PUGET SOUND SHAREHOLDERS

- Date: [ ], [ ], 2017
- Time: [ ] a.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 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 [ ], 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

[ ]

[ ], 2017 ]



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 be illustrative of 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 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
\$ 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 Heritage Shares to be Issued as Merger Consideration(1)	Per Share Cash to be Issued			
				Aggregate Cash to be Issued as Merger Consideration(1)	Aggregate Cash 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(1)
\$ 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 Heritage Shares to be Issued as Merger Consideration(1)	Per Share Cash to be Issued			
				Aggregate Cash to be Issued as Merger Consideration(1)	Aggregate Cash 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(1)
\$ 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 [ ], 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. Puget Sound shareholders 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 [ ].

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?

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

A13: 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 or about August 17, 2017. A waiver request will be submitted to the Federal Reserve Board in or about November 2017.

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

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

A14: WBCA. To review these procedures in more detail, see the section entitled "Dissenters' Rights" beginning on page [ ], and Appendix C of this proxy statement/prospectus.

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

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

A15: 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 [ ].

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 [ ].

Q17: When do you expect to complete the merger?

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.

A17: Q18: What happens if the merger is not completed?

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

A18: 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 [-] for a complete discussion of the circumstances under which a termination fee will 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?

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."

A19: Q20: What should I do if I hold my Puget Sound common shares in book-entry form?

You are not required to take any special additional actions if your Puget Sound common shares are held in A20: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

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## 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 [ ]. 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 of "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 [ ]) )

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

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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 [ ]) )

The merger agreement is described beginning on page [ ]. 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 [ ]) )

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 [·]% of the outstanding Heritage common shares after the merger (Page [ ]) )

Based on the number of Heritage common shares and Puget Sound common shares (inclusive of shares of restricted stock) outstanding as of [ ], 2017, and the closing price of Heritage common shares on such date, Puget Sound shareholders will collectively own up to approximately [·] % 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 [ ]) )

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 [ ]) )

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 [ ]) )

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) [ ], 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
[•], 2017		

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 [ ]) )

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:

Puget Sound's executive officers and directors have financial interests in the merger that are different from, or in addition to, the interests of Puget Sound shareholders.

Executive officers of Puget Sound negotiated the terms of the merger agreement with Heritage, and Puget Sound's board of directors unanimously approved and recommended that Puget Sound shareholders vote to approve the Merger Agreement. In considering these facts and the other information contained in this proxy statement/prospectus, you should be aware that certain Puget Sound executive officers and directors have financial interests in the merger that are different from, or in addition to, the interests of Puget Sound's shareholders generally. These interests 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;

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One director of Puget Sound, who has not yet been selected, will be added to the Heritage board of directors; and Puget Sound's directors and executive officers will be entitled to indemnification by Heritage with respect to claims arising from matters occurring at or prior to the effective time of the merger and to coverage under a directors' and officers' liability insurance policy for up to six years after completion of the merger.

See "The Merger—Interests of Certain Persons in the Merger" on page [—] for information about these financial interests.

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 [·].

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

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 [ ].

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 [ ]).

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.

Accounting treatment (Page [ ])

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 [ ])

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 or about August 17, 2017. A waiver request will be submitted to the Federal Reserve Board in or about November 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 [·].

Puget Sound shareholders have dissenters' rights (Page [ ]) )

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 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 [ ] 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 [ ]) )

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 [ ]) )

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; and

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.

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 [ ].

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

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 [ ]) )

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.

The special meeting (page [ ]) )

#### Meeting Information and Vote Requirements

The special meeting of Puget Sound's shareholders will be held on [ ], 2017, at [·] a.m., local time, at Daniel's Broiler, located at 10500 N.E. 8<sup>th</sup> 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 [ ], 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 contains 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 [ ], 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 may not know or 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 [·] % 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 [·]. 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 approvals from the FDIC and WDFI 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.

## 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 of 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 [ ] 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 [ ].

	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 continued 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)							
<b>Balance Sheet Data:</b>							
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
<b>Financial Measures:</b>							
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
<b>Capital Ratios:</b>							
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 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 Receivables, 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	-	-	-						
Stockholder's 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	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						NA	NA	NA					
to Risk Weighted Assets	12.9	12.9	12.4	13.0									
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 [•].

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 share 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 [ ], 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
[•], 2017		

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 ([—], 2017)					
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 \$0.25 and \$0.10 per share for the quarters ended December 31, 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 [ ], 2017 there were [ ] outstanding Heritage common shares held by approximately [ ] shareholders of record. As of [ ], 2017, there were [ ] outstanding Puget Sound common shares held by approximately 208 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 [ ], 2017, at Daniel's Broiler located at 10500 N.E. 8th Street, Bellevue, Washington 98004, at [ ], 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 [·].

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 mailed to shareholders of Puget Sound on or about [ ], 2017.

### Voting and Proxy Procedure

#### Shareholders Entitled to Vote.

The close of business on [ ], 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 [ ] Puget Sound common shares outstanding held by [ ] 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 [ ], 2017. 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.

**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 [·]. 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)	
<b>Directors</b>			
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%	
<b>Executive Officers</b>			
Sean Brennan	45,524	1.33%	
Tony Chalfant	34,288	1.00	
Phil 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, or has the right to acquire within 60 days under outstanding stock options. Beneficial ownership may be disclaimed as to certain of the shares.
- (1) Based on 3,425,434 Puget Sound common shares that was 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.
- (7)

## 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 representative 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, 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, 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 enter 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.

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 Financial Corporation (or, for the purposes of this section, "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 shares 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

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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 <sup>1</sup> :	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

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O'Neill (the "Puget Sound Peer Group"). The Puget Sound Peer Group consisted of publicly traded banks 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		13.0 x	15.0 x	17.0 x	19.0 x	21.0 x	23.0 x
(15.0 %)	\$	15.79	\$18.22	\$20.65	\$23.07	\$25.50	\$27.93
(10.0 %)	\$	16.72	\$19.29	\$21.86	\$24.43	\$27.00	\$29.57
(5.0 %)	\$	17.64	\$20.36	\$23.07	\$25.79	\$28.50	\$31.22
0.0 %	\$	18.57	\$21.43	\$24.29	\$27.15	\$30.00	\$32.86
5.0 %	\$	19.50	\$22.50	\$25.50	\$28.50	\$31.50	\$34.50
10.0 %	\$	20.43	\$23.57	\$26.72	\$29.86	\$33.00	\$36.15
15.0 %	\$	21.36	\$24.65	\$27.93	\$31.22	\$34.50	\$37.79

Sandler O'Neill noted that the net present value analysis is a widely used valuation methodology, but the results of such methodology are highly dependent upon the numerous assumptions that must be made, and the results thereof are not necessarily indicative of actual values or future results.

Analysis of Selected Merger Transactions. Sandler O'Neill reviewed a group of selected merger and acquisition transactions involving U.S. banks (the "Nationwide Precedent Transactions"). The Nationwide Precedent Transactions group consisted of bank transactions announced in the last-twelve-months ending July 25, 2017 with disclosed deal values, target assets between \$300 million and \$1.5 billion, target LTM ROAA greater than 0.50% and less than 2.0%, TCE/TA greater than 8.0% and less than 11.0%, and target Non-Performing Assets/Assets ratio less than 3.0%.

The Nationwide Precedent Transactions group was composed of the following transactions:

Acquiror	Target
United Community Banks, Inc.	Four Oaks Fincorp, Inc.
Carolina Financial Corporation	First South Bancorp, Inc.
Southside Bancshares, Inc.	Diboll State Bancshares, Inc.
Glacier Bancorp, Inc.	Columbine Capital Corporation
SmartFinancial, Inc.	Capstone Bancshares, Inc.
Seacoast Commerce Banc Holdings	Capital Bank
First Merchants Corporation	Independent Alliance Banks, Inc.
Heartland Financial USA, Inc.	Citywide Banks of Colorado, Inc.
First Busey Corporation	First Community Financial Partners, Inc.
First Merchants Corporation	Arlington Bank
Renasant Corporation	Metropolitan BancGroup, Inc.
Veritex Holdings, Inc.	Sovereign Bancshares, Inc.
CenterState Banks, Inc.	Gateway Financial Holdings of Florida, Inc.
Simmons First National Corporation	Hardeman County Investment Company, Inc.
Access National Corporation	Middleburg Financial Corporation
CenterState Banks, Inc.	Platinum Bank Holding Company
Enterprise Financial Services Corp	Jefferson County Bancshares, Inc.
Standard Financial Corp.	Allegheny Valley Bancorp, Inc.

Using the latest publicly available information prior to the announcement of the relevant transaction, Sandler O'Neill reviewed the following transaction metrics: transaction price to LTM earnings per share, transaction price to tangible book value per share, tangible book value premium to core deposits and one-day market premium. Sandler O'Neill compared the indicated transaction multiples for the merger to the high, low, mean and median multiples of the Nationwide Precedent Transactions group.

	Puget Sound/Heritage	Nationwide Precedent Transactions			
		Mean	Median	High	Low
Transaction Price / LTM Earnings Per Share:	25.7x	21.0x	20.1x	32.5x	15.0x
Transaction Price / Tangible Book Value Per Share:	233%	179%	176%	265%	124%
Tangible Book Value Premium to Core Deposits:	14.7%	12.5%	11.4%	22.6%	3.6%
1-Day Market Premium	44.1%	30.0%	22.6%	74.4%	10.4%

Heritage Comparable Company Analyses. Sandler O'Neill used publicly available information to compare selected financial information for Heritage with a group of financial institutions selected by Sandler O'Neill (the "Heritage Peer Group"). The Heritage Peer Group consisted of major exchange traded banks headquartered in Western Region with assets between \$2 billion and \$6 billion, excluding announced merger targets. The Heritage Peer Group consisted of the following companies:

Central Pacific Financial Corp. <sup>1</sup>	First Foundation Inc. <sup>1</sup>
Westamerica Bancorporation	Preferred Bank
Hanmi Financial Corporation	Heritage Commerce Corp <sup>1</sup>
TriCo Bancshares <sup>1</sup>	Bank of Marin Bancorp

1. Financial data as of March 31, 2017.

The analysis compared publicly available financial information for Heritage as of or for the LTM period ended June 30, 2017 with the corresponding publicly available data for the Heritage Peer Group as of or for the LTM period ended June 30, 2017 (unless otherwise noted), with pricing data as of July 25, 2017. The table below sets forth the data for Heritage and the high, low, median and mean data for the Heritage Peer Group.

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	Heritage Peer Group				
	Heritage	Mean	Median	High	Low
Total Assets (in millions)	3,991	4,043	4,108	5,443	2,101
Market Value (in millions)	799	821	836	1,483	391
Price/Tangible Book Value	213%	222%	196%	317%	168%
Price/LTM Earnings Per Share	19.1x	19.8x	19.6x	24.1x	16.9x
Price/Estimated 2017 Earnings Per Share	20.1x <sup>1</sup>	18.9x	18.4x	24.4x	16.5x
Price/Estimated 2018 Earnings Per Share	18.2x	16.9x	15.9x	23.3x	14.5x
Current Dividend Yield	1.9%	2.0%	2.1%	2.9%	0.0%
One-Year Stock Price Change	54.9%	36.2%	29.8%	80.1%	20.1%
LTM Efficiency Ratio	65%	56%	57%	66%	38%
LTM Net interest Margin	3.92%	3.65%	3.76%	4.19%	3.08%
LTM Return on Average Assets	1.09%	1.08%	1.11%	1.31%	0.78%
LTM Return on Average Tangible Common Equity	11.7%	11.7%	11.1%	14.3%	9.2%
Tangible Common Equity/Tangible Assets	9.7%	9.3%	9.1%	11.1%	7.9%
CRE Concentration Ratio	242%	290%	291%	656%	76%
Loans/Deposits	84%	77%	78%	111%	28%
Non-performing Assets/Total Assets	0.29%	0.47%	0.42%	0.92%	0.21%

1. 2017 estimated EPS does not include the impact of Q2 results which include non-recurring gain on sale of "other loans" equaling approximately \$3.0 million in pretax proceeds or \$0.06 in EPS

Heritage Stock Trading History. Sandler O'Neill reviewed the historical stock price performance of Heritage 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 Heritage's common shares to movements in its peer group (as described above) as well as certain stock indices.

#### Heritage One-Year Stock Price Performance

	Beginning July 25, 2016	Ending July 25, 2017
Heritage	100.0%	154.9%
Heritage Peer Group	100.0%	129.8%
NASDAQ Bank	100.0%	134.5%
S&P 500	100.0%	114.2%

#### Heritage Three-Year Stock Price Performance

	Beginning July 25, 2014	Ending July 25, 2017
Heritage	100.0%	168.6%
Heritage Peer Group	100.0%	161.0%
NASDAQ Bank	100.0%	149.8%
S&P 500	100.0%	125.2%

Heritage Net Present Value Analyses. Sandler O'Neill performed an analysis that estimated the net present value per share of Heritage common shares assuming that Heritage performed in accordance with publicly

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available consensus mean analyst earnings per share estimates for the years ending December 31, 2017 and December 31, 2018, as well as an estimated long-term annual earnings per share growth rate and dividend payout ratio for Heritage for the years thereafter, as directed by the senior management of Heritage and their representatives. To approximate the terminal value of Heritage common shares at December 31, 2021, Sandler O'Neill applied price to 2021 earnings per share multiples ranging from 17.0x to 22.0x and price to December 31, 2021 tangible book value per share multiples ranging from 170% to 245%. The terminal values were then discounted to present values using different discount rates ranging from 7.0% to 12.0% chosen to reflect different assumptions regarding required rates of return of holders or prospective buyers of Heritage common shares. As illustrated in the following tables, the analysis indicated an imputed range of values per share of Heritage common shares of \$21.05 to \$32.42 when applying multiples of earnings per share and \$19.92 to \$33.83 when applying multiples of tangible book value per share.

#### Earnings Per Share Multiples

##### Discount

Rate		17.0 x	18.0 x	19.0 x	20.0 x	21.0 x	22.0 x
7.0	%	\$25.61	\$26.97	\$28.33	\$29.70	\$31.06	\$32.42
8.0	%	\$24.60	\$25.91	\$27.22	\$28.52	\$29.83	\$31.14
9.0	%	\$23.65	\$24.90	\$26.15	\$27.41	\$28.66	\$29.92
10.0	%	\$22.74	\$23.94	\$25.14	\$26.35	\$27.55	\$28.75
11.0	%	\$21.87	\$23.03	\$24.18	\$25.34	\$26.49	\$27.65
12.0	%	\$21.05	\$22.16	\$23.27	\$24.37	\$25.48	\$26.59

#### Tangible Book Value Per Share Multiples

##### Discount

Rate		170 %	185 %	200 %	215 %	230 %	245 %
7.0	%	\$24.22	\$26.15	\$28.07	\$29.99	\$31.91	\$33.83
8.0	%	\$23.27	\$25.12	\$26.96	\$28.80	\$30.65	\$32.49
9.0	%	\$22.37	\$24.14	\$25.91	\$27.68	\$29.45	\$31.21
10.0	%	\$21.51	\$23.21	\$24.91	\$26.61	\$28.30	\$30.00
11.0	%	\$20.70	\$22.33	\$23.96	\$25.58	\$27.21	\$28.84
12.0	%	\$19.92	\$21.48	\$23.05	\$24.61	\$26.18	\$27.74

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 Heritage's earnings per share varied from 15% above estimates to 15% below estimates. This analysis resulted in the following range of per share values for Heritage common shares, applying the price to 2021 earnings per share multiples range of 17.0x to 22.0x referred to above and a discount rate of 7.94%.

## Earnings Per Share Multiples

Variance to Base		17.0 x	18.0 x	19.0 x	20.0 x	21.0 x	22.0 x
(15.0 %)		\$21.32	\$22.44	\$23.55	\$24.66	\$25.78	\$26.89
(10.0 %)		\$22.44	\$23.62	\$24.80	\$25.97	\$27.15	\$28.33
(5.0 %)		\$23.55	\$24.80	\$26.04	\$27.28	\$28.53	\$29.77
0.0 %		\$24.66	\$25.97	\$27.28	\$28.60	\$29.91	\$31.22
5.0 %		\$25.78	\$27.15	\$28.53	\$29.91	\$31.28	\$32.66
10.0 %		\$26.89	\$28.33	\$29.77	\$31.22	\$32.66	\$34.10
15.0 %		\$28.01	\$29.51	\$31.02	\$32.53	\$34.03	\$35.54

Sandler O'Neill noted that the net present value analysis is a widely used valuation methodology, but the results of such methodology are highly dependent upon the numerous assumptions that must be made, and the results thereof are not necessarily indicative of actual values or future results.

**Pro Forma Merger Analysis.** Sandler O'Neill analyzed certain potential pro forma effects of the merger. In performing this analysis, Sandler O'Neill utilized the following information and assumptions: (i) the merger closes on December 31, 2017; (ii) certain internal financial projections for Puget Sound for the years ending December 31, 2017 through December 31, 2019 and a long-term earnings per share growth rate, as provided by the senior management of Puget Sound; (iii) 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 annual earnings per share growth rate and dividend payout ratio for Heritage for the years thereafter, as provided by the senior management of Heritage and their representatives; and (iv) certain assumptions relating to transaction expenses, purchase accounting adjustments and cost savings, as provided by the senior management of Heritage and their representatives. The analysis indicated that the merger could be accretive to Heritage's earnings per share (excluding one-time transaction costs and expenses) in the years ended December 31, 2018 through December 31, 2021, and dilutive to Heritage's estimated tangible book at close and through the year end of 2021.

In connection with this analysis, Sandler O'Neill considered and discussed with the Puget Sound board of directors how the analysis would be affected by changes in the underlying assumptions, including the impact of final purchase accounting adjustments determined at the closing of the transaction, and noted that the actual results achieved by the combined company may vary from projected results and the variations may be material.

**Sandler O'Neill's Relationship.** Sandler O'Neill acted as Puget Sound's financial advisor in connection with the merger and will receive a fee for its services in an amount equal to 1.25% of the aggregate purchase price, which fee at the time of announcement was approximately \$1.6 million. A significant portion of Sandler O'Neill's transaction fee is contingent upon consummation of the merger. Sandler O'Neill also received a fee for rendering its opinion, which fairness opinion fee will be credited in full towards the portion of the fee becoming due and payable to Sandler O'Neill on the day of closing of the merger. Puget Sound has also agreed to indemnify Sandler O'Neill against certain claims and liabilities arising out of Sandler O'Neill's engagement and to reimburse Sandler O'Neill for certain of its out-of-pocket expenses incurred in connection with Sandler O'Neill's engagement. In the two years preceding the date of Sandler O'Neill's opinion, Sandler O'Neill did not provide any other investment banking services to Puget Sound nor did Sandler O'Neill provide any investment banking services to Heritage in the two years preceding the date thereof. In the ordinary course of Sandler O'Neill's business as a broker-dealer, Sandler O'Neill may purchase securities from and sell securities to Heritage and its affiliates. Sandler O'Neill may also actively trade the equity and debt securities of Heritage or its affiliates for Sandler O'Neill's own account and for the accounts of Sandler O'Neill's customers.

## Reasons of Heritage for the Merger

The merger will enable Heritage to expand and strengthen its commercial banking presence in King County, Washington. During its deliberation regarding the adoption of the merger agreement, the board of directors of Heritage considered a number of factors, including, but not limited to, the following:

- Puget Sound's strong existing commercial customer base and reputation for providing quality customer service;
- the compatibility of the merger with Heritage's long-term community banking strategy;
- Puget Sound Bank's location in King County, Washington complement Heritage's existing footprint;
- the ability of the combined company to offer a broader array of products and services to Puget Sound's customers;
- Puget Sound's financial performance and strong asset quality;
- potential opportunities to reduce operating costs and enhance revenue; and
- Heritage management's prior record of integrating acquired financial institutions.

Heritage based these assumptions on its present assessment of where savings could be realized based upon the present independent operations of Puget Sound. Actual savings in some or all of these areas could be higher or lower than currently expected.

In reaching its decision to adopt the merger agreement, Heritage's board of directors also considered the risks associated with the transaction, and, after due consideration, concluded that the potential benefits of the proposed transaction outweighed the risks associated with the proposed transaction.

The foregoing information and factors considered by Heritage's board of directors are not intended to be exhaustive. In view of the variety of factors and the amount of information considered, Heritage's board of directors did not find it practicable to, and did not, quantify, rank or otherwise assign relative weights to the specific factors it considered in approving the transaction. In addition, individual members of Heritage's board of directors may have given different weights to different factors. Heritage's board of directors considered all of these factors as a whole, and overall considered them to be favorable to and to support its determination.

### Conversion of Shares and Exchange of Certificates

As soon as reasonably practicable after the effective time of the merger, each holder of a certificate formerly representing shares of Puget Sound common shares who surrenders the certificate, and upon receipt and acceptance of the certificate together with duly executed transmittal materials by Computershare, as exchange agent, shall be entitled to a certificate representing Heritage common shares as merger consideration, cash in lieu of any fractional share interest and in a limited circumstance, cash for a portion of the merger consideration.

### Regulatory Approvals Required for the Merger

The closing of the merger is conditioned upon the receipt of all approvals of regulatory authorities required for the merger and the bank merger. Under the terms of the merger agreement, Heritage and Puget Sound have agreed to use their commercially reasonable best efforts to obtain all necessary permits, consents, approvals and authorizations from any governmental authority necessary, proper or advisable to consummate the merger and the bank merger.

The merger and/or the bank merger is subject to prior approval by the FDIC and the WDFI and the receipt of a waiver or prior approval from the Federal Reserve Board. 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. Applications with



the FDIC and the WDFI were filed on or about August 17, 2017. A waiver request will be submitted to the Federal Reserve Board in or about November 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."

#### Accounting Treatment

The costs related to the merger are expected to be approximately \$9.0 million, and the merger will be accounted for by applying the acquisition method in accordance with accounting principles generally accepted in the United States. For purposes of preparing Heritage's consolidated financial statements, Heritage will establish a new accounting basis for Puget Sound's assets and liabilities based upon their fair values, the merger consideration and the costs of the merger as of the acquisition date. Heritage will record any excess of cost over the fair value of the net assets, including any intangible assets with definite lives, of Puget Sound as goodwill. A final determination of the intangible asset values and required purchase accounting adjustments, including the allocation of the purchase price to the assets acquired and liabilities assumed based on their respective fair values has not yet been made. Heritage will determine the fair value of Puget Sound's assets and liabilities and will make appropriate purchase accounting adjustments including the calculation of any intangible assets with definite lives, upon completion of the acquisition. Goodwill will be periodically reviewed for impairment not less often than annually. Other intangible assets will be amortized against the combined company's earnings following completion of the merger and will also be evaluated for impairment not less often than annually.

#### Board of Directors of Heritage Following the Merger

On or prior to the closing of the merger, Heritage's directors will select, in its sole discretion, an existing Puget Sound director to become a member of Heritage's board of directors. No determination has been made as to the director that will be added to the Heritage board of directors.

#### Interests of Certain Persons in the Merger

In the merger, the directors and executive officers of Puget Sound will receive the same consideration for their Puget Sound shares as the other shareholders of Puget Sound. In considering the recommendation of the Puget Sound board of directors that you vote to approve the merger agreement, you should be aware that some of Puget Sound's executive officers and directors may have interests in the merger and may have arrangements, as described below, which may be considered to be different from, or in addition to, those of Puget Sound's shareholders generally. The Puget Sound board of directors was aware of these interests and considered them, among other matters, in reaching its decisions to approve the merger agreement and to recommend that you vote in favor of approving the merger agreement. Further, pursuant to the merger agreement, each director and executive officer of Puget Sound has delivered to Heritage an executed voting agreement and each director of Puget Sound has delivered to Heritage a noncompete agreement, each in the form attached as an exhibit to the merger agreement for no additional consideration.

**Stock Ownership.** The current directors and executive officers of Puget Sound, together with their affiliates, beneficially owned, as of the record date for the special meeting, a total of 599,037 Puget Sound common shares, representing approximately 17.5% of the total outstanding Puget Sound common shares. Each of Puget Sound's directors and executive officers has executed a voting agreement, agreeing to vote his or her shares for approval of the merger agreement and the adjournment proposal. See "The Merger Agreement – Voting Agreements"

**Restricted Stock.** Puget Sound executive officers and directors hold Puget Sound restricted stock awards for 58,256 of Puget Sound common shares, which restricted stock awards are not yet vested. At the effective time of the merger, each restricted stock award that is subject to vesting, including those held by executive officers and directors, shall become fully vested and be converted into a right to receive the merger consideration, subject to any required tax withholding.

The following table sets forth the number of Puget Sound restricted shares held by each director and executive officer of Puget Sound as of September 30, 2017 and for all executive officers, all directors and all executive officers and directors as a group.

Name	Shares of Restricted Stock
Directors	
Stephen A. Dennis	1,500
Patrick J. Dineen	1,500
Thomas E. Leavitt	1,500
Lynn Manley	1,500
James R. Mitchell	14,139
Nancy Pellegrino	1,500
Randall H. Quinton	1,500
James K. Schuler	1,500
James F. Tune	1,500
Edward E. Wallace	1,500
Robert Wallace	1,500
Total for Directors	29,139
Executive Officers	
Sean Brennan	10,943
Tony Chalfant	9,218
Phil Mitterling	8,956
Total for Executive Officers	29,117
All Executive Officers and Directors as a group (14 persons)	58,256

A Puget Sound Director will become a Heritage Director. Following the completion of the merger, a current director of Puget Sound will be selected by Heritage join the Heritage board of directors. Such director will be entitled to the same compensation as is provided to the other non-employee directors of Heritage. In 2016, each non-employee director of Heritage, other than the Chairman of the Board, was paid an annual cash retainer of \$30,000, plus committee fees and stock awards of 1,421 shares for service as a director. Directors are provided or reimbursed for travel and lodging (including for spouse) and are also reimbursed for other customary out-of-pocket expenses incurred in attending out-of-town board and committee meetings, as well as industry conferences and continuing education seminars.

Indemnification and Insurance. As described under "The Merger Agreement—Indemnification and Continuance of Director and Officer Liability Coverage," Heritage will indemnify (and advance expenses to) the directors and officers of Puget Sound and its subsidiaries, for a period of six years from and after the effective time of the merger, to the fullest extent permitted by any of the Puget Sound's or Puget Sound Bank's articles of incorporation or charter, bylaws, or applicable law, with respect to claims pertaining to matters occurring at or prior to the effective time of the merger. Heritage also has agreed, for a period of six years after the effective time of the merger, to maintain at its expense directors' and officers' liability insurance for the benefit of persons who are covered by Puget Sound's current officers and directors liability insurance policy with respect to claims arising from facts or events occurring prior to completion of the merger. This insurance must contain terms substantially equivalent to the coverage currently provided by Puget Sound, provided that Heritage shall not be required to pay for this insurance annually more than an

amount equal to 150% of the annual premium most recently paid by Puget Sound. Instead of providing this insurance coverage, Heritage may, prior to the effective time of the merger, purchase or cause Puget Sound to purchase a tail policy for directors' and officers' liability insurance on the terms described in the preceding sentence but with single limit equivalent coverage provided that the cost thereof shall not exceed 250% of Puget Sound's current annual premium for such insurance. If the prepaid tail policy has been obtained by Puget Sound prior to the effective time or the merger, Heritage will cause such policy to be maintained

in full force and effect for its full term and will cause all obligations thereunder to be honored by the combined company after the merger.

Termination of Supplemental Retirement Benefit and Executive Employment Agreements. Pursuant to the merger agreement, the salary continuation agreements of Puget Sound's Chief Executive Officer, James R. Mitchell, its President and Chief Lending Officer, Sean P. Brennan, its Executive Vice President and Chief Financial Officer/Chief Information Officer, Philip I. Mitterling, and its Executive Vice President and Chief Credit Officer/Chief Operating Officer, Tony Chalfant, will be terminated upon payment to the named persons of \$798,990, \$332,519, \$297,338, and \$305,920, respectively. Messrs. Mitchell and Mitterling have entered into transitional employment agreements with Heritage Bank to take effect upon completion of the merger. Mr. Mitchell's agreement is for a two-year period and Mr. Mitterling's is short term terminating approximately two weeks after core system conversion is completed. Messrs. Brennan and Chalfant have each entered into an employment agreement with Heritage Bank to take effect upon the completion of the merger with an initial term expiring on June 30, 2019. Each of the new agreements with Heritage Bank and Messrs. Mitchell, Brennan, Mitterling, and Chalfant provide for additional payments in satisfaction of the change in control obligations under their Puget Sound employment agreements of \$813,222, \$496,384, \$432,582, and \$445,076, respectively.

#### New Transitional Employment Agreements and Other Employment Agreements

In connection with the execution of the merger agreement, Heritage Bank entered into transitional employment agreements with Messrs. Mitchell and Mitterling and employment agreements with Messrs. Brennan, and Chalfant, all executive officers of Puget Sound. As described below, these agreements set forth the terms and conditions of each such individual's employment relationship with Heritage Bank following the effective time of the merger and will be effective upon and subject to the completion of the merger. When effective, the employment agreements will also supersede and replace any prior employment, retention, pre-existing change of control or other similar agreement with Messrs. Mitchell, Brennan, Mitterling and Chalfant, including their Puget Sound employment agreements.

#### Transitional Employment Agreements with Messrs. Mitchell and Mitterling.

Mr. Mitchell's employment agreement expires as of the second anniversary of the effective date of the merger. He will be employed by Heritage Bank during the first year of his employment as its Market President - King County and serve as a non-employee consultant on a part-time basis during the second year of the employment agreement term. During the first employment year, Mr. Mitchell will receive a base salary at an annual rate of \$271,314 and will be eligible to receive a performance-based annual incentive bonus under the Heritage Bank annual cash incentive plan with a target bonus of 25% of his annual base salary, subject to the discretion of the Heritage board of directors. During the second year, Mr. Mitchell will perform consulting services on a part time basis as an independent contractor for an annual consulting fee of not less than \$75,000. Commencing, the first quarter of 2019, Mr. Mitchell will be eligible to participate in Heritage's equity-based incentive plan with an initial target equity compensation plan award of 20% of annual base salary at the absolute discretion of the Heritage board of directors. In addition to the foregoing, Mr. Mitchell will be provided a special equity award as soon as practicable after the effective date of the merger with a grant date value equal to 35% of his annual base salary. All equity awards granted to Mr. Mitchell will provide for full vesting no later than the last day of the term of the agreement. Mr. Mitchell will receive a one-time additional payment of \$813,222 in satisfaction of the change in control obligations under his Puget Sound employment agreement.

Mr. Mitterling's employment agreement provides for a term from the effective time of the merger until approximately two weeks after the core system conversion following the merger. Mr. Mitterling will receive an annual base salary of \$206,820 and will be eligible to participate in employee benefits generally made available to employees of Heritage Bank on a uniform basis. In addition, for his 2017 performance, Heritage Bank will pay him a lump sum of \$63,346 on the first full payroll period following the effective date of the merger and Puget Sound Bank will pay him a lump sum of \$84,462 pursuant to the Puget Sound incentive plan no later than January 15, 2018. Mr. Mitterling will receive a one-time additional payment of \$432,582 in satisfaction of the change in control obligations under his Puget Sound employment agreement.

Employment Agreements with Other Executive Officers. The employment agreements with Messrs. Brennan and Chalfant have initial terms from effective time of the merger through June 30, 2019. The terms of the employment agreements will be automatically extended for an additional year beginning on January 1, 2019, and on each January 1

thereafter, unless either party gives at least 90 days prior notice of non-renewal. Mr. Brennan will  
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serve as Heritage Bank's Senior Vice President and Lending Manager for King County and Mr. Chalfant will serve as Heritage Bank's Senior Vice President and Regional Credit Officer.

The employment agreements provide for annual base salaries for Messrs. Brennan and Chalfant of \$226,123 and \$216,123, respectively. The base salaries will be reviewed annually and may be increased at the discretion of the board of directors of Heritage Bank. The agreements provide that the executives will be eligible to receive performance-based annual incentive bonuses, in accordance with Heritage Bank's annual incentive plan with initial target bonuses of 25% of annual base salary subject at all times to be absolute discretion of the Heritage board of directors. For 2017 performance, Puget Sound Bank will pay Messrs. Brennan and Chalfant \$103,500 and \$86,902, respectively pursuant to the Puget Sound incentive plan with the amounts to be paid on January 15, 2018. Messrs. Brennan and Chalfant will receive one-time additional payments of \$496,384 and \$445,076, respectively, in satisfaction of the change in control obligations under their Puget Sound employment agreements.

Commencing, the first quarter of 2019, Messrs. Brennan and Chalfant will be eligible to participate in Heritage's equity-based incentive plan with an initial target equity compensation plan award of 20% of annual base salary at the absolute discretion of the Heritage board of directors. In addition to the foregoing, each of Mr. Brennan and Mr. Chalfant shall be provided a special equity award as soon as practicable after the effective date of the merger with a grant date value equal to 30% of the officer's annual base salary and with three year annual vesting.

The agreements with Messrs. Mitchell, Brennan and Chalfant all include restrictive covenants, including covenants not to compete and covenants not to solicit employees or customers for varying periods of time following termination of employment with Heritage Bank.

#### Indemnification and Insurance

As described under the section entitled, "The Merger Agreement – Indemnification and Continuance of Director and Officer Liability Coverage," Heritage will, for a period of six years, maintain and preserve the rights to indemnification of Puget Sound's directors and executive officers, to the maximum extent permitted by Puget Sound's articles of incorporation, bylaws and applicable law, in connection with claims arising out of or relating to matters existing or occurring at or prior to completion of the merger, and will provide directors' and officers' liability insurance with respect to such claims.

#### Voting Agreements

As described under the section entitled, "The Merger Agreement - Voting Agreements", all of the Puget Sound directors and executive officers have entered into voting agreements in favor of Heritage providing that they will vote their Puget Sound common shares for approval of the merger agreement and forbear from taking other actions that would be inconsistent with such obligation or precludes their shares from being voted in favor of the merger agreement.

#### Resignation, Non-Compete and Confidentiality Agreements

Each Puget Sound director has entered into a resignation, non-compete and confidentiality agreement with Heritage whereby the director has agreed to resign as a director upon consummation of the merger and for 18 months thereafter the individual will not, without the prior written consent of Heritage:

- refer any customers to any financial institution other than the financial institution subsidiaries of Heritage;
- solicit the business of any customer of Puget Sound Bank for any other person or entity for the purpose of providing services on behalf of any person or entity other than Heritage or any of its financial institution subsidiaries;
- solicit or induce any customer to terminate or reduce any aspects of its relationship with Heritage or any of its financial institution subsidiaries ;
- participate as an officer, director, employee or consultant, or invest in any financial institution (other than the purchase of less than 5% of the outstanding shares), or financial institution in formation, in King, Pierce or Snohomish

counties, or

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· directly or indirectly, solicit or offer employment to any officer or employee of Heritage or any of its subsidiaries, or take any action intended or reasonably expected to cause any officer or employee or entity doing business with, Heritage or any of its subsidiaries to terminate his, her or its employment or business relationship with Heritage or any of its subsidiaries.

The agreement also provides that the Puget Sound director may not during the term of the agreement make derogatory statements about Heritage or any of its subsidiaries or any of their respective directors, officers, employees, agents, or representatives, in each case subject to standard exceptions. The director also agreed to keep confidential information about the Puget Sound entities.

#### Method of Effecting the Acquisition

Subject to the consent of Puget Sound, which shall not be unreasonably withheld or delayed. Heritage may at any time change the method of effecting the acquisition of Puget Sound (including by providing for the merger of a wholly-owned subsidiary of Heritage with Puget Sound). However, no change may: (i) alter or change the amount or kind of consideration to be issued to holders of the Puget Sound common shares, as provided for in the merger agreement; (ii) have an adverse effect on the tax treatment of the transaction to Heritage, Puget Sound or Puget Sound's shareholders; or (iii) impede or materially delay completion of the transactions contemplated by the merger agreement.

#### Effective Time

The effective time of the merger will be the time and date when the merger becomes effective, as set forth in the articles of merger that will be filed with the Washington Secretary of State on the closing date of the merger. The closing date will occur on a date to be specified by Heritage and Puget Sound. Subject to applicable law, this date will be no later than the last day of the month (but no earlier than five (5) business days) after the latest to occur of: (i) receipt of all required regulatory approvals and the expiration of all required waiting periods; (ii) the approval of the merger agreement by the shareholders of Puget Sound and (iii) the satisfaction or waiver (subject to applicable law) of the other closing conditions set forth in the merger agreement (other than those conditions that by their nature are to be satisfied or waived at the closing), unless extended by mutual agreement of Heritage and Puget Sound.

We anticipate that the merger will be completed during the quarter ended March 31, 2018. However, completion of the merger could be delayed if there is a delay in obtaining the required regulatory approvals or in satisfying other conditions to the merger. The date for completing the merger can occur as late as March 31, 2018, after which Puget Sound or Heritage would need to mutually agree to extend the closing date of the merger. See the sections entitled "Regulatory Approvals Required for the Merger" and "The Merger Agreement—Conditions to Completion of the Merger."

#### Declaration and Payment of Dividends

Holders of Puget Sound common shares will not be paid dividends or other distributions declared after the effective time with respect to Heritage common shares into which their Puget Sound common shares have been converted until they surrender their Puget Sound share certificates for exchange after the effective time. Upon surrender of those certificates after the effective time of the merger, the combined company will pay any unpaid dividends or other distributions, without interest. After the effective time of the merger, there will be no transfers on the stock transfer books of Puget Sound of Puget Sound common shares issued and outstanding immediately prior to the effective time. If certificates representing Puget Sound common shares are presented for transfer after the effective time of the merger, they will be cancelled and exchanged for certificates representing the applicable number of Heritage common shares, any cash in lieu of fractional shares, unpaid dividends or other distributions which respect to the Heritage common shares represented thereby and cash merger considerations, if applicable.

#### No Fractional Shares

No fractional share interests will be issued to any shareholder of Puget Sound upon completion of the merger. For each fractional share that would otherwise be issued, Heritage will pay cash in an amount equal to the fraction of a Heritage common share which the holder would otherwise be entitled to receive, multiplied by the Heritage average closing price for the determination period. No interest will be paid or accrued on cash payable to holders of those certificates in lieu of fractional shares.





#### Share Matters

None of Heritage, Puget Sound, the exchange agent or any other person will be liable to any former shareholder of Puget Sound for any amount delivered in good faith to a public official pursuant to applicable abandoned property, escheat or similar laws.

If a certificate for Puget Sound common shares has been lost, stolen or destroyed, the exchange agent will issue the consideration properly payable under the merger agreement upon the making of an affidavit by the person claiming that loss, theft or destruction and the posting of a bond in an amount reasonably necessary as indemnity against any claim that may be made against Heritage with respect to that lost certificate.

For a description of Heritage common shares and a description of the differences between the rights of the holders of Puget Sound common shares compared to the rights of the holders of Heritage common shares, see the sections entitled "Description of Heritage Capital Stock" and "Comparison of Rights of Puget Sound Common Shares and Heritage Common Shares."

#### Public Trading Markets

Heritage's common shares are listed on Nasdaq under the symbol "HFWA" and Puget Sound's common shares trade on the OTCQB Marketplace under the symbol "PUGB." Upon completion of the merger, Puget Sound common shares will no longer trade on the OTCQB Marketplace. The Heritage common shares issuable in the merger for Puget Sound common shares will be listed on Nasdaq.

#### THE MERGER AGREEMENT

The following is a summary of the material provisions of the merger agreement. This summary is qualified in its entirety by reference to the merger agreement, a copy of which is attached as Appendix A to this proxy statement/prospectus and is incorporated herein by reference. You should read the merger agreement in its entirety, as it is the legal document governing the merger.

#### The Merger

The boards of directors of Heritage and Puget Sound have each unanimously approved the merger agreement, which provides for the merger of Puget Sound into Heritage, with Heritage as the surviving corporation of the merger. The merger agreement provides that after the effective time of the merger Heritage intends to merge Puget Sound Bank, a wholly owned subsidiary of Puget Sound, with and into Heritage Bank, a wholly owned subsidiary of Heritage, with Heritage Bank as the surviving institution.

#### Effective Time and Completion of the Merger

The merger agreement provides that unless both Heritage and Puget Sound agree to a later date, the filings necessary to make the merger effective, consisting of articles of merger to be filed with the Secretary of State of the State of Washington, will be made on or before the last day of the month (but no earlier than five business days) after all of the conditions to completion of the merger have been satisfied or waived (other than those that by their nature are to be satisfied or waived at the closing of the merger).

We currently expect that the merger will be completed in the quarter ended March 31, 2018, subject to the approval of the merger agreement by Puget Sound shareholders, the receipt of all necessary regulatory approvals and the expiration of all regulatory waiting periods. However, completion of the merger could be delayed if there is a delay in obtaining the required regulatory approvals or in satisfying any other conditions to the merger. There can be no assurances as to whether, or when, Heritage and Puget Sound will obtain the required approvals or complete the merger. See "—Conditions to Completion of the Merger."

#### Consideration to be Received in the Merger

In the merger, 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 rate subject to any adjustment set forth in the Merger Agreement. 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 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 compare 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 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.

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 outperforms the average price of the KBW Index for the determination period, in each case measured from the price on the agreed upon date of May 22, 2017, 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, 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 underperforms the average price of the KBW Index for the determination period, in each case measured from the price on the agreed upon date of May 22, 2017, by greater than 15%, the value of the merger consideration to be received by Puget Sound shareholders will fix at \$26.98 per share 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. However, as noted previously, at the time of the Puget Sound special meeting, Puget Sound shareholders may not know or 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.

If, prior to the effective time of the merger, the outstanding Heritage common shares are increased, decreased, changed into or exchanged for a different number or kind of shares or securities as a result of a reorganization, recapitalization, reclassification, stock dividend, stock split or other similar change in capitalization, an appropriate

and proportionate adjustment will be made to the exchange ratio.

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 meeting of Puget Sound shareholders 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. See "Risk Factors" on page [ ].

No fractional share interests will be issued in connection with the merger. Instead, Heritage will make a cash payment to each Puget Sound shareholder who would otherwise receive a fractional Heritage share in an amount equal to the fractional share multiplied by the Heritage average closing price for the determination period. A Puget Sound shareholder also has the right to obtain the fair value of his or her Puget Sound shares in lieu of receiving the merger consideration under the merger agreement by strictly following the procedures under the WBCA, as discussed under "Dissenters' Rights" beginning on page [ ].

#### Exchange Procedures

Prior to the effective time of the merger, Heritage will appoint as the exchange agent under the merger agreement, its transfer agent, Computershare. As soon as reasonably practicable after the effective time of the merger, the exchange agent will mail to each holder of record of Puget Sound common shares who does not exercise dissenters' rights a letter of transmittal and instructions for the surrender of the holder's Puget Sound share certificate(s) and/or conversion of book-entry shares for the merger consideration and cash in lieu of any fractional Heritage share.

Puget Sound shareholders should not send in their share certificates until they receive the letter of transmittal and instructions.

Upon surrender to the exchange agent of the certificate(s) representing his or her shares of Puget Sound common shares, accompanied by a properly completed letter of transmittal, a Puget Sound shareholder will be entitled to promptly receive the merger consideration and cash in lieu of any fractional Heritage share. Until surrendered, each such certificate will represent after the effective time of the merger, for all purposes, only the right to receive, without interest, the merger consideration and cash in lieu of any fractional Heritage share. Heritage or the exchange agent will be entitled to deduct and withhold from any cash consideration payable under the merger agreement to any holder of Puget Sound common shares, the amounts it is required to deduct and withhold under the Code or any provision of state, local or foreign tax law. If any such amounts are withheld and paid over to the appropriate governmental authority, these amounts will be treated for all purposes of the merger agreement as having been paid to the persons from whom they were withheld.

No dividends or other distributions with respect to Heritage common shares after completion of the merger will be paid to the holder of any unsurrendered Puget Sound shares certificates with respect to the Heritage common shares represented by those certificates until those certificates have been properly surrendered. Following the proper surrender of any such previously unsurrendered Puget Sound shares certificate, the holder of the certificate will be entitled to receive, without interest, (i) the amount of unpaid dividends or other distributions with a record date after the effective time of the merger payable with respect to the whole shares of Heritage common stock represented by that certificate and/or (ii) at the appropriate payment date, the amount of dividends or other distributions payable with respect to Heritage common shares represented by that certificate with a record date after the effective time of the merger (but before the date on which the certificate is surrendered) and with a payment date subsequent to the issuance of the Heritage common shares issuable in exchange for that certificate.

The merger consideration and cash in lieu of any fractional Heritage share may be issued or paid in a name other than the name in which the surrendered Puget Sound shares certificate is registered if (i) the certificate surrendered is properly endorsed or otherwise in a proper form for transfer, and (ii) the person requesting the payment or issuance pays any transfer or other similar taxes due or establishes to the satisfaction of Heritage that such taxes have been paid or are not applicable.

After the effective time of the merger, there will be no transfers on the stock transfer books of Puget Sound other than to settle transfers of Puget Sound shares that occurred prior to the effective time. If, after the effective time of the merger, certificates for Puget Sound shares are presented for transfer to the exchange agent, the certificates will be cancelled and exchanged for the merger consideration, cash in lieu of any fractional Heritage share and any unpaid dividends or distributions on Heritage common shares deliverable with respect thereto, in each case without interest.

Any portion of the merger consideration and cash to be paid in lieu of fractional Heritage shares that has been deposited with the exchange agent and remains unclaimed by Puget Sound shareholders at the expiration of six months after the effective time of the merger may be returned to Heritage. In that case, former Puget Sound shareholders who have not yet surrendered their Puget Sound share certificates may after that point look only to Heritage with respect to the merger consideration, any cash in lieu of any Heritage fractional common shares and any unpaid dividends and distributions on the Heritage common shares to which they are entitled, in each case, without interest. None of Heritage, the exchange agent or any other person will be liable to any former Puget Sound shareholder for any amount delivered in good faith to a public official pursuant to applicable abandoned property, escheat or similar laws.

In the event any Puget Sound share certificate is lost, stolen or destroyed, in order to receive the merger consideration and any cash in lieu of any fractional Heritage share, the holder of that certificate must provide an affidavit of that fact and, if reasonably required by Heritage or the exchange agent, post a bond in such amount as Heritage determines is reasonably necessary to indemnify it against any claim that may be made against it with respect to that certificate.

#### Conduct of Business Pending the Merger

Pursuant to the merger agreement, Puget Sound and Heritage have agreed to certain restrictions on their activities until the merger is completed or terminated. In general, each party has agreed that, except as otherwise permitted by the merger agreement, or as required by applicable law or a governmental entity or with the prior written consent of the other party, it will:

- use commercially reasonable best efforts to maintain and preserve intact its business organization and advantageous business relationships;
- not take any action that is intended to or that would reasonably be expected to adversely affect or materially delay the ability of either party or its subsidiaries to obtain any necessary regulatory approvals or to complete the merger or the bank merger;
- not take any action that is intended or that would reasonably be expected to cause the merger or the bank merger to fail to qualify as a reorganization under Section 368(a) of the Code or cause any of its representations and warranties in the merger agreement to be untrue in any material respect or any of the conditions in the merger agreement to be unsatisfied or to result in a violation of any provision of the merger agreement; and
- not take any action that is likely to materially impair its ability to perform any of its obligations under the merger agreement or its subsidiary bank to perform any of its obligations under the bank merger agreement.

Heritage has also agreed that it will not and will not permit any of its subsidiaries to amend its articles of incorporation or bylaws in a manner that would materially and adversely affect the economic benefits of the merger to Puget Sound's shareholders.

Puget Sound has also agreed that it will, and will cause each of its subsidiaries to, conduct its business in the ordinary course consistent with past practice. Puget Sound has further agreed that it will not, and will not permit any of its subsidiaries, to do any of the following, except as required by law or a governmental entity, expressly contemplated and permitted by the merger agreement, or with the prior written consent of Heritage:

- issue, sell or otherwise permit to become outstanding, or authorize the creation of, any additional shares of its capital stock, other ownership interests or any warrants, options, other equity-based awards, convertible securities or other arrangements or commitments to acquire capital stock or other ownership interest;
- issue any other capital securities, including trust preferred or other similar securities, voting debt securities or other securities;



pay any dividends or other distributions on its capital stock or other ownership interests, other than dividends from wholly owned subsidiaries to Puget Sound or to another wholly owned subsidiary of Puget Sound; or directly or indirectly adjust, split, combine, redeem, reclassify, purchase or otherwise acquire any shares of its capital stock, other ownership interests, or rights with respect to the foregoing;

(i) enter into, modify, renew or terminate any employment, consulting, severance, change in control or similar agreement or arrangement with any director, officer, employee, or service provider, or grant any salary or wage increase or increase any employee benefit (including incentive or bonus payments) other than (A) at will agreements, (B) normal increases in salary to rank and file employees, (C) incentive bonuses as specified pursuant to the merger agreement, and (D) severance in accordance with past practice; (ii) hire any new officers; (iii) promote any employee to a rank of vice president or higher; or (iv) pay expenses in excess of a specified amount for employees and directors to attend conventions or similar meetings;

establish, modify, renew or terminate any employee benefit plan or accelerate the vesting of benefits under any employee benefit plan;

sell, transfer, lease or encumber any of its assets, except in the ordinary course of business consistent with past practice, and in the case of a sale or transfer, at fair value; or sell or transfer any of its deposit liabilities;

enter into, modify or renew any data processing contract, service provider agreement or any lease, license or maintenance agreement relating to real or personal property or intellectual property or information technology assets, other than the annual renewal of an agreement that is necessary to operate its business in the ordinary course consistent with past practice, or permit to lapse its rights in any material intellectual property or information technology assets;

acquire the assets, business, deposits or properties of any person, other than pursuant to foreclosure, in a fiduciary capacity or in satisfaction of debts contracted prior to the date of the merger agreement;

sell or acquire any loans (excluding originations) or loan participations, except in the ordinary course of business consistent with past practice including the sale of the guaranteed portion of SBA 7 loans (but, in the case of a sale, after giving Heritage or Heritage Bank a first right of refusal to acquire such loan or participation); or sell or acquire any loan servicing rights;

amend its articles of incorporation or bylaws or similar governing documents;

materially change its accounting principles, practices or methods, except as may be required by accounting principles generally accepted in the United States or any governmental entity;

enter into, materially modify, terminate or renew any Puget Sound Contract (as such term is defined in the merger agreement);

settle any legal claims involving an amount in excess of \$25,000, excluding amounts paid or reimbursed under any insurance policy;

foreclose upon any real property without obtaining a phase one environmental report, except for one- to four-family non-agricultural residential properties of five acres or less which it does not have reason to believe contains hazardous substances or might be in violation of or require remediation under environmental laws;

in the case of Puget Sound Bank, (i) voluntarily make a material change in its deposit mix; (ii) increase or decrease the interest rate paid on its time deposits or certificates of deposit except in a manner consistent with past practice and competitive factors in the marketplace; (iii) incur any liability or obligation relating to retail banking and branch merchandising, marketing and advertising activities and initiatives except in the ordinary course of business consistent with past practice; (iv) open any new branch or deposit taking facility; or (v) close or relocate any existing branch or other facility;

- acquire any investment securities outside of the limits specified in the merger agreement;
- make capital expenditures outside the limits specified in the merger agreement;
- materially change its loan underwriting policies or make loans on extensions of credit in excess of amounts specified in the merger agreement;
- invest in any new or existing joint venture or any new real estate development or construction activity;
- materially change its interest rate and other risk management policies and practices;
- incur any debt for borrowed funds other than in the ordinary course of business consistent with past practice with a term of one year or less, or guaranty any obligations or liabilities of any other person or entity other than the issuance of letters of credit in the ordinary course of business;
- create any lien on any of its assets or properties other than pursuant to agreements with the Federal Home Loan Bank of Des Moines and federal funds transactions;
- make charitable contributions in excess of limits specified in the merger agreement;
- enter into any new lines of business;
- make, change or revoke any tax election, amend any tax return, enter into any tax closing agreement, or settle any liability with respect to disputed taxes; or
- agree or commit to do any of the foregoing.

Agreement Not to Solicit Other Offers

Puget Sound has agreed that, from the date of the merger agreement until the effective time of the merger or, if earlier, the termination of the merger agreement, it will not, and will cause its subsidiaries not to, directly or indirectly: (i) initiate, solicit, encourage or knowingly facilitate inquiries or proposals with respect to, or engage in any discussions or negotiations concerning, or provide to any person any confidential or nonpublic information concerning, its and its subsidiaries' business, properties or assets; or (ii) have any discussions with any person or entity relating to an acquisition proposal.

Notwithstanding this agreement, if Puget Sound receives an unsolicited written acquisition proposal prior to Puget Sound shareholder approval of the merger agreement that Puget Sound's board of directors determines in good faith constitutes or is reasonably likely to constitute a transaction that is more favorable from a financial point of view to the shareholders of Puget Sound than the merger with Heritage (referred to as a "superior proposal"), Puget Sound may provide confidential information to and negotiate with the third party that submitted the acquisition proposal if the Puget Sound board of directors determines in good faith, after consulting with counsel, that the failure to do so would violate the board's fiduciary duties. In order to constitute a superior proposal, an acquisition proposal must be 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. Puget Sound must promptly advise Heritage of any acquisition proposal received and keep it apprised of any related developments.

The merger agreement generally prohibits the Puget Sound board of directors from withdrawing or modifying in a manner adverse to Heritage the board's recommendation that Puget Sound's shareholders vote to approve the merger agreement (referred to as a "change in recommendation"). At any time prior to the approval of the merger agreement by Puget Sound's shareholders, however, the Puget Sound board of directors may effect a change in recommendation in response to a bona fide written unsolicited acquisition proposal that the board determines in good faith, after consultation with counsel, constitutes a superior proposal. The Puget Sound board of directors may not make a change in recommendation in response to a superior proposal, or terminate the merger agreement to pursue a superior proposal, unless it has given Heritage at least four business days to propose a modification to the merger agreement and, after considering any such proposed modification, the Puget Sound board

of directors determines in good faith, after consultation with counsel, that the third party unsolicited proposal continues to constitute a superior proposal.

If Heritage terminates the merger agreement based on a change in recommendation by the Puget Sound board of directors or Puget Sound terminates the merger agreement to pursue a superior proposal, Puget Sound would be required to pay Heritage a termination fee of \$4,250,000 in cash. See "—Termination of the Merger Agreement."

#### Representations and Warranties

The representations and warranties described below and included in the merger agreement were made only for purposes of the merger agreement and as of specific dates, are solely for the benefit of Heritage and Puget Sound, may be subject to limitations, qualifications or exceptions agreed upon by the parties, including those included in confidential disclosures made for the purposes of, among other things, allocating contractual risk between Heritage and Puget Sound rather than establishing matters as facts, and may be subject to standards of materiality that differ from those standards relevant to shareholders. You should not rely on the representations and warranties or any description thereof as characterizations of the actual state of facts or condition of Heritage, Puget Sound or any of their respective subsidiaries or affiliates. Moreover, information concerning the subject matter of the representations and warranties may change after the date of the merger agreement, which subsequent information may or may not be fully reflected in public disclosures by Heritage or Puget Sound. The representations and warranties and other provisions of the merger agreement should not be read alone, but instead should be read only in conjunction with the information provided elsewhere in this proxy statement/prospectus and in the documents incorporated by reference into this proxy statement/prospectus. See "Where You Can Find More Information."

The merger agreement contains customary representations and warranties of each of Heritage and Puget Sound relating to their respective businesses. The representations and warranties in the merger agreement do not survive completion of the merger.

The representations and warranties made by each of Puget Sound and Heritage in the merger agreement relate to a number of matters, including the following:

- corporate matters, including due organization and qualification and subsidiaries;
- capitalization;
- authority relative to execution and delivery of the merger agreement and the absence of conflicts with, or violations of, organizational documents or other obligations as a result of the merger or bank merger;
- required governmental and other regulatory filings, consents and approvals in connection with the merger and the bank merger;
- reports to regulatory authorities;
- financial statements, internal controls, books and records, and absence of undisclosed liabilities;
- in the case of Puget Sound, broker's fees payable in connection with the merger;
- the absence of certain changes or events;
- legal proceedings;
- tax matters;
- employee benefit matters;
- in the case of Heritage, filings with the SEC;

- compliance with applicable laws;
- in the case of Puget Sound, certain contracts;
- absence of agreements with regulatory authorities;
- derivative instruments and transactions;
- environmental matters;
- investment securities, commodities and, in the case of Puget Sound, bank owned life insurance;
- title to real property and other assets;
- intellectual property and information technology assets;
- in the case of Puget Sound, related party transactions;
- in the case of Puget Sound, inapplicability of takeover statutes;
- absence of action or circumstance that would prevent the merger or the bank merger from qualifying as a reorganization under Section 368(a) of the Code;
- in the case of Puget Sound, receipt of a fairness opinion from Puget Sound's financial advisor;
- the accuracy of information supplied for inclusion in this proxy statement/prospectus and other documents;
- loan matters;
- insurance matters;
- in the case of Puget Sound, the proper administration of all fiduciary business;
- in the case of Puget Sound, the accuracy and completeness of corporate and stock ownership records; and
- in the case of Puget Sound, the absence of claims requiring indemnification.

Certain representations and warranties of Heritage and Puget Sound are qualified as to "materiality" or "material adverse effect." For purposes of the merger agreement, a "material adverse effect," when used in reference to either Heritage, Puget Sound or the combined company, means:

a material adverse effect on the business, properties, results of operations or financial condition of such party and its subsidiaries taken as a whole (provided that a material adverse effect will not be deemed to include the impact of (A) changes, after the date of the merger agreement, in generally accepted accounting principles or applicable regulatory accounting requirements, (B) changes, after the date of the merger agreement, in laws, rules or regulations of general applicability to companies in the industries in which such party and its subsidiaries operate, or interpretations thereof by courts or governmental entities, (C) changes, after the date of the merger agreement, in (1) global, national or regional political conditions (including the outbreak of war or acts of terrorism) or in economic or market (including equity, credit and debt markets, as well as changes in interest rates) conditions affecting the financial services industry generally, (D) public disclosure of the transactions contemplated by the merger agreement or actions or inactions expressly required by the merger agreement or that are taken with the prior written consent of the other party in contemplation of the transactions contemplated by the merger agreement, (E) expenses reasonably incurred by a party in connection with the merger agreement or in consummation of the transactions contemplated thereby,

or (F) a decline in the trading price of a party's common shares or the failure, in and of itself, to meet earnings projections, but not, in either case, including the underlying causes thereof; except, with respect to subclauses (A), (B), or (C), to the extent that the effects of such change are materially disproportionately adverse to the business, properties, assets, liabilities, results of operations or financial condition of such party and its subsidiaries, taken as a whole, as compared to other companies in the industry in which such party and its subsidiaries operate); or

(2) a material adverse effect on the ability of such party or its bank subsidiary to timely consummate the merger or bank merger.

#### Special Meeting and Recommendation of Puget Sound's Board of Directors

Puget Sound has agreed to hold the special meeting for the purpose of voting upon the merger agreement and to use commercially reasonable best efforts to obtain from its shareholders the vote required to approve the merger agreement, including by communicating to its shareholders its recommendation (and including such recommendation in this proxy statement/prospectus) that they approve the merger agreement.

Notwithstanding any change in recommendation by the board of directors of Puget Sound, unless the merger agreement has been terminated in accordance with its terms, Puget Sound is required to convene the special meeting and to submit the merger agreement to a vote of its shareholders. Puget Sound will adjourn or postpone the special meeting if there are insufficient Puget Sound common shares, represented (either in person or by proxy) to constitute a quorum necessary to conduct the business of such meeting.

#### Conditions to Completion of the Merger

Mutual Closing Conditions. The obligations of Heritage and Puget Sound to complete the merger are subject to the satisfaction of the following conditions:

- approval of the merger agreement by Puget Sound's shareholders;
- authorization for listing on Nasdaq of the Heritage common shares to be issued in the merger; the Registration Statement on Form S-4, of which this proxy statement/prospectus is a part, being effective and not subject to any stop order by the SEC;
- absence of any injunction or other legal restraint blocking the merger or the bank merger; and required regulatory approvals are received without the imposition of any non-standard unduly burdensome condition upon Heritage or Heritage Bank;

Additional Closing Conditions for the Benefit of Heritage. In addition to the mutual closing conditions, Heritage's obligation to complete the merger is subject to the satisfaction or waiver of the following conditions:

- accuracy of the representations and warranties made by Puget Sound subject to the closing condition standards set forth in the merger agreement and the receipt by Heritage of a certificate signed by the Chief Executive Officer or Chief Financial Officer of Puget Sound to that effect;
- performance in all material respects by Puget Sound of the obligations required to be performed by it at or prior to the effective time of the merger and the receipt by Heritage of a certificate signed by the Chief Executive Officer or Chief Financial Officer of Puget Sound to that effect;
- the holders of less than 10% of the outstanding Puget Sound common shares exercising dissenters' rights under Washington law;
- the receipt of consent from counterparties under specified contracts; and
- the receipt by Heritage of an opinion of its legal counsel to the effect that the merger will be treated as a reorganization within the meaning of Section 368(a) of the Code.

Additional Closing Conditions for the Benefit of Puget Sound. In addition to the mutual closing conditions, Puget Sound's obligation to complete the merger is subject to the satisfaction or waiver of the following conditions:

accuracy of the representations and warranties made by Heritage subject to the closing condition standards set forth in the merger agreement and the receipt by Puget Sound of a certificate signed by the Chief Executive Officer or Chief Financial Officer of Heritage to that effect;

performance in all material respects by Heritage of the obligations required to be performed by it at or prior to the effective time of the merger and the receipt by Puget Sound of a certificate signed by the Chief Executive Officer or Chief Financial Officer of Heritage to that effect; and

the receipt by Puget Sound of an opinion of its legal counsel to the effect that the merger will be treated as a reorganization within the meaning of Section 368(a) of the Code.

#### Termination of the Merger Agreement

Heritage and Puget Sound can jointly agree to terminate the merger agreement at any time. Either company may also terminate the merger agreement:

if a regulatory or other governmental authority has denied approval of the merger or the bank merger and such denial has become final and non-appealable, provided that the denial is not due to the failure of the company seeking termination to fulfill its obligations under the merger agreement, or if a court or regulatory other governmental authority issues a final, non-appealable order, injunction or decree permanently enjoining or otherwise prohibiting or making illegal the merger or the bank merger;

if the merger has not been completed by March 31, 2018, unless due to the failure of the company seeking termination to perform or observe its covenants and agreements set forth in the merger agreement;

if the other company breaches any representation, warranty, covenant or other agreement (provided that the terminating company is not then in material breach of representation, warranty, covenant or other agreement), which breach results in a failure to satisfy the closing conditions of the company seeking termination and such breach is not cured within twenty (20) days following written notice to the breaching company or by its nature or timing cannot be cured within that time period, or

if the provision giving Heritage the right to terminate the merger agreement as described in the next sentence is not applicable and the shareholders of Puget Sound fail to approve the merger agreement at the special meeting of Puget Sound shareholders, or

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

In addition to the circumstances described above, Heritage may terminate the merger agreement if (i) the board of directors of Puget Sound fails to recommend that Puget Sound shareholders approve the merger agreement or makes a change in recommendation; (ii) Puget Sound materially breaches any of the provisions relating to acquisition proposals, as described under "—Agreement Not to Solicit Other Offers"; or (iii) Puget Sound refuses to call or hold the shareholder meeting for a reason other than that the merger agreement has been previously terminated. Immediately following such a termination by Heritage, Puget Sound must pay to Heritage a termination fee of \$4,250,000 in same day funds.

In addition to the circumstances described above, Puget Sound may terminate 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 (i) not materially breached the merger agreement provisions outlined in "—Agreement Not to Solicit Other Offers" and (ii) paid Heritage the \$4,250,000 termination fee.

Puget Sound must also pay the \$4,250,000 termination fee to Heritage 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.

#### Employee and Benefit Plan Matters

Following the effective time of the merger, Heritage shall maintain or cause to be maintained employee benefit plans and compensation opportunities for the benefit of employees who are employees of Puget Sound and its subsidiaries on the merger closing date (referred to below as "covered employees") which, provide employee benefits and compensation programs that are substantially comparable to the employee benefits and compensation programs that are made available to similarly situated employees of Heritage or its subsidiaries, as applicable. Until such time as Heritage causes covered employees to participate in the benefit plans that are made available to similarly situated employees of Heritage or its subsidiaries, a covered employee's continued participation in employee benefit plans of Puget Sound and its subsidiaries will be deemed to satisfy this provision of the merger agreement. In no event will any covered employee be eligible to participate in any closed or frozen plan of Heritage or its subsidiaries.

To the extent that a covered employee becomes eligible to participate in a Heritage benefit plan, Heritage shall cause the plan to recognize years of prior service from the date of the most recent hire of such covered employee with Puget Sound, its subsidiaries or their predecessors, for purposes of eligibility, participation, vesting and, in the case of vacation or paid time off plans only, for benefit accrual, but only to the extent such service was recognized immediately prior to the merger closing date under a comparable Puget Sound benefit plan in which such covered employee was eligible to participate immediately prior to the effective time of the merger. This recognition of service will not duplicate any benefits of a covered employee with respect to the same period of service.

With respect to any Heritage benefit plan that is a health, dental, vision or similar plan, Heritage or a subsidiary of Heritage shall:

- cause the waiver of all limitations as to pre-existing conditions and waiting periods with respect to participation and coverage requirements applicable to the covered employees, to the extent such pre-existing condition was or would have been covered under a Puget Sound benefit plan maintained for such covered employees immediately prior to the merger closing date; and

- recognize expenses incurred by a covered employee in the year that includes the closing date (or, if later, the year in which the covered employee is first eligible to participate) for purposes of any applicable deductible and annual out-of-pocket expense requirements.

Puget Sound has agreed to take, and cause its subsidiaries to take, all actions reasonably requested by Heritage that may be necessary or appropriate to (i) cause the continuation on and after the effective time of the merger, of any contract, arrangement or insurance policy relating to any Puget Sound benefit plan for such period as may be requested by Heritage, (ii) facilitate the merger of any Puget Sound benefit plan into any employee benefit plan maintained by Heritage or a Heritage subsidiary, and/or (iii) amend or terminate any Puget Sound benefit plan (to the extent permitted by the terms thereof and Section 409A of the Code) immediately prior to the effective time of the merger.

Heritage has agreed that it or its subsidiaries will honor the obligations of Puget Sound for certain employees identified by Puget Sound under existing employment, change in control or severance agreements and benefits under the Puget Sound benefit plans that do not enter into similar agreements with Heritage or Heritage Bank following the effective time of the merger. Concurrent with the execution of the merger agreement and to become effective at the effective time of the merger, Heritage Bank entered into transitional employment agreements with Messrs. Mitchell and Mitterling, and employment agreements with Messrs. Brennan and Chalfant, all executive officers of Puget Sound. These agreements set forth the terms and conditions of each such individual's employment relationship with Heritage Bank following the effective time of the merger and will be effective upon and subject to the completion of the merger. When effective, the employment agreements will also supersede and replace any prior employment, retention, pre-existing change of control or other similar agreement with Messrs. Mitchell, Brennan, Mitterling and Chalfant, including their Puget Sound employment agreements. For additional information, see "The Merger—Interests

of Certain Persons in the Merger" on page [—].

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#### Indemnification and Continuance of Director and Officer Liability Coverage

For a period of six years following the merger, Heritage will maintain and preserve the rights to indemnification of the current and former directors and officers of Puget Sound and its subsidiaries to the maximum extent permitted by applicable organizational documents to the fullest extent permitted by law, in connection with any claims arising out of or relating to matters existing or occurring at or prior to the effective time of the merger, including the transactions contemplated by the merger agreement.

For a period of six years following the effective time of the merger, Heritage will provide, at Heritage's expense, directors' and officers' liability insurance covering the persons who are presently covered by Puget Sound's current officers' and directors' liability insurance policy with respect to claims arising from facts or events occurring before the effective time of the merger, including the transactions contemplated by the merger agreement. This insurance must be equivalent to the coverage currently provided by Puget Sound but the maximum cost thereof is limited to 150% of Puget Sound's current annual premium for such insurance. Instead of providing this insurance coverage, Heritage may, prior to the effective time of the merger, purchase or cause Puget Sound to purchase a tail policy for directors' and officers' liability insurance on the terms described in the preceding sentence but with single limit equivalent coverage provided that the cost thereof shall not exceed 250% of Puget Sound's current annual premium for such insurance. If the prepaid tail policy has been obtained by Puget Sound prior to the Effective Time, Heritage will cause such policy to be maintained in full force and effect for its full term and will cause all obligations thereunder to be honored by the combined company after the merger.

#### Expenses

All expenses incurred in connection with the merger will be paid by the party incurring the expenses, except that Puget Sound will bear the costs and expenses of printing and mailing this proxy statement/prospectus and Heritage has paid the filing fee for the Registration Statement on Form S-4 of which this proxy statement/prospectus is a part.

#### Amendment, Waiver and Extension of the Merger Agreement

Subject to compliance with applicable law, the merger agreement may be amended by the parties at any time before or after approval of the merger agreement by the shareholders of Puget Sound, except that after approval of the merger agreement by the shareholders of Puget Sound, there may not be, without further approval of such shareholders, any amendment of the merger agreement that requires further approval of such shareholders under applicable law.

At any time prior to completion of the merger, the parties may, to the extent legally allowed, extend the time for the performance of any of the obligations or other acts of the other party, waive any inaccuracies in the representations and warranties contained in the merger agreement or in any document delivered pursuant to the merger agreement, and waive compliance with any of the agreements or satisfaction of any conditions contained in the merger agreement, except that after approval of the merger agreement by the Puget Sound shareholders, there may not be, without further approval of such shareholders, any extension of the merger agreement or any performance obligation or any waiver of any portion of the merger agreement that requires further approval of such shareholders under applicable law.

#### Voting Agreements

As an inducement to Heritage to enter into the merger agreement, the directors of Puget Sound have entered into voting agreements with Heritage with respect to the shares of Puget Sound common shares they own. The following summary of the voting agreements is qualified in its entirety by reference to the form of voting agreement, a copy of which is attached as Exhibit A to the merger agreement, which is included in Appendix A to this proxy statement/prospectus.

Pursuant to the voting agreements, the directors and executive officers of Puget Sound have agreed:

·to vote, or cause to be voted, all of their Puget Sound common shares (i) in favor of approval of the merger agreement and approval of the merger and any action required in furtherance thereof and (ii) against any proposal

made in opposition to or in competition with the consummation of the merger;

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not to sell, transfer or otherwise dispose of any such Puget Sound common shares until after shareholder approval of the merger proposal, excluding (i) a transfer where the transferee has agreed in writing to abide by the terms of the voting agreement in a form reasonably satisfactory to Heritage, (ii) a transfer by will or operation of law, or (iii) a transfer made with the prior written consent of Heritage; and

not to bring or aid any legal action that challenges the validity of or seeks to enjoin the operation of any provision of the voting agreement or the merger agreement.

The obligations under each voting agreement will terminate concurrently with any termination of the merger agreement.

#### MATERIAL UNITED STATES FEDERAL INCOME TAX CONSEQUENCES OF THE MERGER

This discussion addresses the material United States federal income tax consequences of the merger to U.S. holders (as defined below) of Puget Sound common shares. The discussion is based on provisions of the Code, U.S. Treasury regulations, administrative rulings of the Internal Revenue Service, or IRS, and judicial decisions, all as currently in effect and all of which are subject to change (possibly with retroactive effect) and to differing interpretations.

For purposes of this discussion, we use the term "U.S. holder" to mean:

- an individual who is a citizen or resident of the United States;
- a corporation (or other entity taxable as a corporation for U.S. federal income tax purposes) created or organized under the laws of the United States, any state thereof or the District of Columbia;
- a trust that (i) is subject to the supervision of a court within the United States and the control of one or more U.S. persons or (ii) has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person;
- or
- an estate that is subject to U.S. federal income taxation on its income regardless of its source.

This discussion applies only to U.S. holders that hold their Puget Sound common shares as a capital asset within the meaning of Section 1221 of the Code (generally, property held for investment), and does not address all aspects of U.S. federal income taxation that may be relevant to a particular U.S. holder in light of the holder's particular circumstances or to U.S. holders subject to special treatment under the U.S. federal income tax laws, including:

- banks and other financial institutions
- pass-through entities and investors therein;
- persons liable for the alternative minimum tax;
- insurance companies;
- tax-exempt organizations;
- dealers in securities or currencies;
- traders in securities that elect to use a mark-to-market method of accounting;
- persons that hold Puget Sound common shares as part of a straddle, hedge, constructive sale, conversion or other integrated transaction;
- mutual funds;

- regulated investment companies;
- real estate investment trusts;
- retirement plans, individual retirement accounts or other tax-deferred accounts;
- persons whose "functional currency" is not the U.S. dollar;
- U.S. expatriates and former residents of the United States; and
- persons who acquired their Puget Sound common shares through the exercise of a Puget Sound option, through a tax qualified retirement plan or otherwise as compensation.

Furthermore, this discussion does not address any state, local, or non-U.S. tax consequences, or U.S. federal estate, gift, unearned income Medicare contribution tax, alternative minimum tax or other non-income tax consequences. If a partnership or other entity taxed as a partnership for U.S. federal income tax purposes holds Puget Sound common shares, the tax treatment of a partner in the partnership will depend upon the status of the partner and the activities of the partnership. Partnerships and partners in such a partnership should consult their tax advisors about the tax consequences of the merger to them.

The actual U.S. federal income tax consequences of the merger to you may be complex and will depend on your specific situation and on factors that are not within our control. You should consult with your own tax advisor as to the tax consequences of the merger in your particular circumstances, including the applicability and effect of the alternative minimum tax, the unearned income Medicare contribution tax, the estate and gift tax, and any state, local or non-U.S. and other tax laws and of changes in those laws.

#### Tax Consequences of the Merger Generally

It is a condition to Puget Sound's obligation to complete the merger that Puget Sound receives a written opinion of its special counsel, Keller Rohrback L.L.P., dated as of the closing date, to the effect that the merger will qualify as a "reorganization" within the meaning of Section 368(a) of the Code. It is a condition to Heritage's obligation to complete the merger that Heritage receives an opinion of its special counsel, Silver, Freedman, Taff & Tiernan LLP, dated as of the closing date, to the effect that the merger will qualify as a "reorganization" within the meaning of Section 368(a) of the Code. These opinions will be based on the assumption that the merger will be completed in the manner set forth in the merger agreement and the registration statement on Form S-4 of which this proxy statement/prospectus forms a part, and on representation letters provided by Puget Sound and Heritage to be delivered at the time of the closing. Those opinions will also be based on the assumption that the representations set forth in the merger agreement and the representation letters are, as of the effective time of the merger, true and complete without qualification and that the representation letters are executed by appropriate and authorized officers of Puget Sound and Heritage. If any of the assumptions or representations upon which such opinions are based is inconsistent with the actual facts with respect to the merger, the U.S. federal income tax consequences of the merger could be adversely affected.

In addition, neither of the tax opinions given in connection with the merger or in connection with the filing of the registration statement will be binding on the IRS. Neither Puget Sound nor Heritage intends to request any ruling from the IRS as to the U.S. federal income tax consequences of the merger, and consequently, there is no assurance that the IRS will treat the merger as a "reorganization" within the meaning of Section 368(a) of the Code.

Assuming that the merger is completed in the manner set forth in the merger agreement and the registration statement on Form S-4 of which this proxy statement/prospectus forms a part, and that the representations found in the merger agreement and in the representation letters provided by Puget Sound and Heritage delivered at the time of closing will be true and complete without qualification as of the effective time of the merger, it is the opinion of each of Keller Rohrback L.L.P. and Silver, Freedman, Taff & Tiernan LLP that the merger will qualify as a "reorganization" within the meaning of Section 368(a) of the Code.

Based solely on the information, and subject to the assumptions, qualifications and limitations set forth herein and in their respective federal income tax opinions filed as exhibits to the registration statement on Form S-4, this discussion of the material U.S. federal income tax consequences of the merger, to the extent such discussion expresses conclusions as to the application of U.S. federal income tax law, constitutes the opinions of Keller Rohrbach L.L.P., special counsel to Puget Sound, and Silver, Freedman, Taff & Tiernan LLP, special counsel to Heritage.

Subject to the foregoing, the material U.S. federal income tax consequences of the merger to U.S. holders of Puget Sound common shares will be as follows:

no gain or loss will be recognized on the receipt of Heritage common shares in exchange for Puget Sound common shares pursuant to the merger (except for any gain or loss that may result from the receipt of cash in lieu of a fractional Heritage common share that the U.S. holders would otherwise be entitled to receive (as discussed below under "—Cash Received In Lieu of a Fractional Heritage Common Share"));

the aggregate basis of the Heritage common shares received in the merger will be the same as the aggregate basis of the Puget Sound common shares surrendered in the exchange, decreased by the basis attributable to any fractional interest in Heritage common shares for which cash is received; and

the holding period of Heritage common shares received in exchange for Puget Sound common shares will include the holding period of the Puget Sound common shares surrendered in the exchange.

If a U.S. holder of Puget Sound common shares acquired different blocks of Puget Sound common shares at different times or at different prices, such holder's basis and holding period may be determined with reference to each block of Puget Sound common shares. Any such holder should consult its tax advisor regarding the manner in which Heritage common shares received in the merger should be allocated among different blocks of Puget Sound common shares and with respect to identifying the bases or holding periods of the particular Heritage common shares received in the merger.

#### Cash Received In Lieu of a Fractional Heritage Common Share

A U.S. holder of Puget Sound common shares that receives cash in lieu of a fractional Heritage common share will be treated as having received the fractional share pursuant to the merger and then as having exchanged the fractional share for cash in a redemption by Heritage. As a result, a U.S. holder generally will recognize gain or loss equal to the difference between the amount of cash received and the basis in the fractional share, as set forth above. This gain or loss will be long-term capital gain or loss if, as of the effective time of the merger, the holding period for such shares is greater than one year. The deductibility of capital losses is subject to limitations.

#### Cash Received on Exercise of Dissenter's Rights

A U.S. holder of Puget Sound common shares that receives cash in exchange for such holder's Puget Sound common shares upon exercise of dissenter's rights will recognize gain or loss equal to the difference between the amount of cash received and the holder's adjusted tax basis in the Puget Sound common shares exchanged therefor. Each U.S. holder of Puget Sound common shares is urged to consult such holder's tax advisor regarding the manner in which gain or loss should be calculated among different blocks of Puget Sound common shares exchanged in the merger. Such gain or loss will generally be long-term or short-term capital gain or loss, depending on the U.S. holder's holding period in the Puget Sound common shares exchanged. The tax consequences of cash received may vary depending upon your individual circumstances. Each holder of Puget Sound common stock who contemplates exercising statutory dissenters' rights should consult its tax adviser as to the possibility that all or a portion of the payment received pursuant to the exercise of such rights will be treated as dividend income.

#### Alternative Consideration Scenario

If the Heritage average closing price for the determination period falls below certain thresholds and certain other conditions are met (as described in more detail above under the headings "The Merger Agreement—Consideration to be Received in the Merger"), holders of Puget Sound common shares may receive cash consideration in addition to Heritage common shares. In such case, the material U.S. federal income tax consequences of the transaction would generally be the same as described above, except that:



A U.S. holder who receives Heritage common shares and cash (other than cash received in lieu of a fractional Heritage common share) in exchange for Puget Sound common shares pursuant to the merger, will generally recognize gain (but not loss) in an amount equal to the lesser of (1) the amount of gain realized (i.e., the excess of the sum of the amount of cash and the fair market value of the Heritage common shares received pursuant to the merger (determined as of the effective date of the merger) over such U.S. holder's adjusted tax basis in the Puget Sound common shares surrendered in the exchange) and (2) the amount of cash received pursuant to the merger (in each case excluding any cash received in lieu of a fractional Heritage common share, which will be treated as discussed above); and

The aggregate tax basis in the Heritage common shares received by a U.S. holder of Puget Sound common shares in the merger, including any fractional share interests deemed received and redeemed as described above, will equal such U.S. holder's aggregate adjusted tax basis in the Puget Sound common shares surrendered in the exchange, reduced by the amount of cash received (excluding any cash received in lieu of a fractional share) and increased by the amount of gain, if any recognized by such U.S. holder (excluding any gain recognized with respect to cash received in lieu of a fractional share) on the exchange.

Any gain recognized by a U.S. holder of Puget Sound common stock in connection with the merger generally will be capital gain unless such holder's receipt of cash has the effect of a distribution of a dividend, in which case the gain will be treated as a dividend to the extent of such holder's ratable share of Puget Sound's accumulated earnings and profits, as calculated for U.S. federal income tax purposes. For purposes of determining whether your receipt of cash has the effect of a distribution of a dividend, you will be treated as if you first exchanged all of your Puget Sound common stock solely in exchange for Heritage common stock and then Heritage immediately redeemed a portion of that stock for the cash that you actually received in the merger (referred to herein as the "deemed redemption"). Receipt of cash will generally not have the effect of a dividend to you if such receipt is "not essentially equivalent to a dividend" or "substantially disproportionate," each within the meaning of Section 302(b) of the Code. In order for the deemed redemption to be "not essentially equivalent to a dividend," the deemed redemption must result in a "meaningful reduction" in your deemed percentage stock ownership of Heritage following the merger. The determination generally requires a comparison of the percentage of the outstanding stock of Heritage that you are considered to have owned immediately before the deemed redemption to the percentage of the outstanding stock of Heritage that you own immediately after the deemed redemption. The IRS has indicated in rulings that any reduction in the interest of a minority shareholder that owns a small number of shares in a publicly and widely held corporation and that exercises no control over corporate affairs would result in capital gain (as opposed to dividend) treatment. For purposes of applying the foregoing tests, a shareholder will be deemed to own the stock the shareholder actually owns and the stock the shareholder constructively owns under the attribution rules of Section 318 of the Code. Under Section 318 of the Code, a shareholder will be deemed to own the shares of stock owned by certain family members, by certain estates and trusts of which the shareholder is a beneficiary, and by certain affiliated entities, as well as shares of stock subject to an option actually or constructively owned by the shareholder or such other persons. If, after applying these tests, the deemed redemption results in a capital gain, the capital gain will be long-term if your holding period for your Puget Sound common stock is more than one year as of the date of the exchange. If, after applying these tests, the deemed redemption results in the gain recognized being classified as a dividend, such dividend will be treated as either ordinary income or qualified dividend income. Any gain treated as qualified dividend income will be taxable to you at the long-term capital gains rate, provided you held the shares giving rise to such income for more than 60 days during the 121-day period beginning 60 days before the effective time of the merger. The determination as to whether you will recognize a capital gain or dividend income as a result of your exchange of Puget Sound common stock for a combination of Heritage common stock and cash in the merger is complex and is determined on a shareholder-by-shareholder basis. Accordingly, we urge you to consult your own tax advisor with respect to any such determination that is applicable to your individual situation.

Net Investment Income Tax

A holder of Puget Sound common stock that is an individual is subject to a 3.8% tax on the lesser of: (1) his or her "net investment income" for the relevant taxable year, or (2) the excess of his or her modified adjusted gross income for the taxable year over a certain threshold (between \$125,000 and \$250,000 depending on the individual's U.S. federal income tax filing status). Estates and trusts are subject to similar rules. Net investment income generally would include any capital gain recognized in connection with the merger (including any gain treated as a dividend), as well as, among other items, other interest, dividends, capital gains and rental or royalty income received by such



individual. Holders of Puget Sound common stock should consult their tax advisors as to the application of this additional tax to their circumstances.

#### Information Reporting and Backup Withholding

A non-corporate U.S. holder may be subject to backup withholding (currently at a rate of 28%) on any cash received in the merger, including cash received in lieu of a fractional Heritage common share. Backup withholding generally will not apply, however, to such U.S. holders who:

- furnish a correct taxpayer identification number, certify that they are not subject to backup withholding on Form W-9 or successor form and otherwise comply with all the applicable requirements of the backup withholding rules; or
- provide proof that they are otherwise exempt from backup withholding.

Any amounts withheld under the backup withholding rules will generally be allowed as a refund or credit against the U.S. holder's U.S. federal income tax liability, provided the required information is timely furnished to the IRS.

A U.S. holder receiving Heritage common shares as a result of the merger will be required to retain records pertaining to the merger. Each U.S. holder that is required to file a U.S. federal income tax return and is a "significant holder" will be required to file a statement with the holder's U.S. federal income tax return setting forth the holder's basis (determined immediately before the exchange) in the Puget Sound common shares surrendered and the fair market value (determined immediately before the exchange) of the Puget Sound common shares that is exchanged by such holder pursuant to the merger. A "significant holder" is a U.S. holder that receives Heritage common shares in the merger and that, immediately before the merger, owned at least 1% of the outstanding Puget Sound shares (by vote or value) or securities of Puget Sound with a tax basis of \$1 million or more.

The preceding discussion is intended only as a summary of material U.S. federal income tax consequences of the merger. Tax matters regarding the merger are very complicated, and the tax consequences of the merger to any particular Puget Sound shareholder will depend on that shareholder's particular situation. Puget Sound shareholders are strongly urged to consult their own tax advisors regarding the specific tax consequences of the merger, including tax return reporting requirements, the applicability of federal, state, local and foreign tax laws and the effect of any proposed change in the tax laws to them.

#### DESCRIPTION OF HERITAGE CAPITAL STOCK

The following briefly summarizes the material terms of Heritage's capital stock. In connection with this summary, we urge you to read Heritage's articles of incorporation and bylaws in their entirety, copies of which have been filed with the SEC and are available, without charge, to any person by following the instructions listed under "Where You Can Find More Information".

#### General

Heritage's authorized capital stock currently consists of:

- 50,000,000 common shares, no par value per share; and
- 2,500,000 preferred shares, no par value per share.

As of [·], 2017, there were [·] Heritage common shares issued and outstanding. No Heritage preferred shares are currently outstanding. Heritage's common shares are traded on Nasdaq under the symbol "HFWA."

#### Common Shares

Each Heritage common share has the same relative rights and is identical in all respects with each other Heritage common share. Heritage common shares represents non-withdrawable capital, is not of an insurable type and is not insured by the FDIC or any other government agency.

Subject to any prior rights of the holders of any preferred shares or other shares of Heritage then outstanding, holders of Heritage common shares are entitled to receive such dividends as are declared by the board of directors of Heritage out of funds legally available for dividends.

Except with respect to greater than 10% shareholders, full voting rights are vested in the holders of Heritage common shares and each share is entitled to one vote. See "Comparison of Shareholder Rights—Voting Limitations". Subject to any prior rights of the holders of any Heritage preferred shares then outstanding, in the event of a liquidation, dissolution or winding up of Heritage, holders of Heritage common shares will be entitled to receive, pro rata, any assets distributable to shareholders in respect of shares held by them. Holders of Heritage common shares will not have any preemptive rights to subscribe for any additional securities which may be issued by Heritage, nor will they have cumulative voting rights.

#### Preferred Shares

Heritage may issue preferred shares in one or more series at such time or times and for such consideration as the board of directors of Heritage may determine, generally without shareholder approval. The board of directors of Heritage is expressly authorized at any time, and from time to time, to issue Heritage preferred shares, with such voting and other powers, preferences and relative, participating, optional or other special rights, and qualifications, limitations or restrictions, as are stated and expressed in the board resolution providing for the issuance. The board of directors of Heritage is authorized to designate the series and the number of shares comprising such series, the dividend rate on the shares of such series, the redemption rights, if any, any purchase, retirement or sinking fund provisions, any conversion rights and any special voting rights. The ability of Heritage's board of directors to approve the issuance of preferred or other shares without shareholder approval could make an acquisition by an unwanted suitor of a controlling interest in Heritage more difficult, time-consuming or costly, or otherwise discourage an attempt to acquire control of Heritage.

Preferred shares redeemed or acquired by Heritage may return to the status of authorized but unissued shares, without designation as to series, and may be reissued by Heritage upon approval of its board of directors.

#### Other Anti-Takeover Provisions

In addition to the ability to issue common and preferred shares without shareholder approval, Heritage's charter and bylaws contain a number of provisions which may have the effect of delaying, deferring or preventing a change in control of Heritage. See "Comparison of Shareholder Rights".

#### Transfer Agent

The transfer agent and registrar for the Heritage common shares is Computershare.

### COMPARISON OF RIGHTS OF PUGET SOUND COMMON SHARES AND HERITAGE COMMON SHARES

After completion of the merger, the Puget Sound shareholders will become shareholders of Heritage. Heritage is a Washington corporation, and the rights of Heritage shareholders are governed by the WBCA, as well as the articles of incorporation and bylaws of Heritage. Puget Sound is also a Washington corporation, and its shareholders' rights are governed by the WBCA, as well as its articles of incorporation and bylaws. After the merger, as Heritage shareholders, the rights of former Puget Sound shareholders will be governed by Heritage's articles of incorporation, its bylaws and the WBCA.

The following discussion summarizes the material differences between the rights of holders of Heritage common shares and holders of Puget Sound common shares under the articles of incorporation and bylaws of Heritage and the articles of incorporation and bylaws of Puget Sound. This discussion is not intended to be a complete statement of the differences affecting the rights of shareholders. In addition, the identification herein of certain differences in rights is not intended to imply the absence of other differences of equal or greater importance. The discussion in this section is qualified in its entirety by reference to governing law and the articles of incorporation and bylaws of each corporation and the relevant provisions of the WBCA.

Copies of the articles of incorporation and bylaws are attached as exhibits to Puget Sound's and Heritage's filings with the SEC. See the sections entitled "Where You Can Find More Information."

Authorized Shares

Heritage. Heritage's articles of incorporation authorize the issuance of 50,000,000 common shares and 2,500,000 preferred shares. Heritage is authorized under its articles of incorporation to issue additional shares of  
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capital stock, up to the amount authorized, generally without shareholder approval. Heritage's board of directors also has sole authority to determine the terms of any one or more series of preferred shares, including the number of shares and determine such voting rights, designations, powers, preferences and relative, participating, optional or other rights, and such qualifications, limitations or restrictions thereof. Currently, no Heritage preferred shares are issued or outstanding.

Puget Sound. Puget Sound's articles of incorporation authorize the issuance of 50,000,000 common shares and 100,000 preferred shares.

#### Restrictions on Voting Rights

Heritage. Heritage's articles of incorporation provide for restrictions on voting rights of shares owned in excess of 10% of any class of our equity security. Specifically, Heritage's articles of incorporation provide that if any person or group acting in concert acquires the beneficial ownership of more than 10% of any class of our equity security without the prior approval by a two-thirds vote of Heritage's "Continuing Directors," (as defined therein) then, with respect to each vote in excess of 10% of the voting power of our outstanding voting shares which such person would otherwise have been entitled to cast, such person shall be entitled to cast only one-hundredth of one vote per share. Exceptions from this limitation are provided for, among other things, any proxy granted to one or more of Heritage's "Continuing Directors" and for Heritages' employee benefit plans. Under Heritage's articles of incorporation, the restriction on voting shares beneficially owned in violation of the foregoing limitations is imposed automatically, and the articles of incorporation provide that a majority of Heritage's Continuing Directors have the power to construe the forgoing restrictions and to make all determinations necessary or desirable to implement these restrictions. These restrictions would, among other things, restrict voting power of a beneficial owner of more than 10% of Heritage's outstanding common shares in a proxy contest or on other matters on which such person is entitled to vote.

Puget Sound. Unlike Heritage, Puget Sound's articles of incorporation do not contain any restrictions or voting limitations of the type contained in Heritage's articles of incorporation.

#### Number of Directors and Directors Terms

Heritage. Heritage's articles of incorporation were amended in 2011 to provide a phased-in declassification of the board so that all directors are elected annually beginning with the 2014 annual meeting of Heritage's shareholders. Cumulative voting is not permitted in the election of directors. Heritage's bylaws provide that the board of directors of Heritage will have not less than five or more than 25 directors, as determined by resolution adopted by the board of directors provided that no action shall be taken to decrease or increase the number of directors from time to time unless at least two-thirds of the directors then in office concur. Heritage currently has ten directors. Pursuant to the merger agreement, upon the effective time of the merger, one director of Puget Sound, selected by Heritage, will be added to the Heritage board of directors. For information regarding these directors, see "The Merger – The Board of Directors of Heritage Following the Merger" on page [·].

Puget Sound. Puget Sound's Articles of Incorporation provide that its board of directors shall consist of the number directors provided in the Bylaws. The Bylaws provide that the number of directors shall not be less than five no more than 15 with the specific number of directors to be set by resolution of the board of directors. Cumulative voting is not permitted in the election of directors and directors are elected for a one-year term.

#### Removal of Directors

Heritage. Heritage's articles of incorporation provide that one or more directors may be removed from the board of directors prior to the expiration of his term, for cause, only at a special meeting of Heritage's shareholders called for that purpose. At such meeting a director may be removed only by the affirmative vote of at least 66 2/3% of Heritage's outstanding shares of capital stock entitled to vote generally in the election of directors, voting as a single class. This provision does not apply to any director elected by one or more series of preferred shares voting separately as a class.

Puget Sound. Puget Sound's Bylaws provide that one or more directors (including the entire board of directors) may be removed from the board of directors prior to the expiration of his or her term, with or without

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cause, at a special meeting called for that purpose if the number of votes cast in favor of removing such director (or the entire Board) exceeds the number of votes cast against removal.

#### Filling Vacancies on the Board of Directors

Heritage. The articles of incorporation provide that any vacancy on the board of directors, including a vacancy created by an increase in the number of directors, shall be filled by a vote of two-thirds of the directors then in office and any director so chosen shall hold office until the next annual meeting of shareholders.

Puget Sound. Puget Sound's bylaws provide that a vacancy in the board of directors, may be filled by the affirmative vote of a majority of the directors present at a meeting of the board of directors at which a quorum is present, or if the directors left in office constitute less than a quorum, by the affirmative vote of all the directors in office.

#### Special Meetings of Shareholders and Action Without a Meeting

Heritage. The bylaws of Heritage provide that special meetings of shareholders may be called only by the Chairman of the Board, Chief Executive Officer, a majority of the board of directors, or any shareholder or shareholders holding in the aggregate at least ten percent of all shares entitled to vote at the special meeting. The WBCA provides that any action taken by written consent in lieu of a shareholder meeting must receive the consent of all shareholders entitled to vote on the action.

Puget Sound. The bylaws of Puget Sound provide that special meetings of shareholders may be called by the president, the chairman of the board or any two or more directors. Shareholders of Puget Sound may take any action that may be taken at a meeting, without a meeting, if the consent for such action is set forth in writing and signed by all the shareholders entitled to vote on such action.

#### Amendment of Articles of Incorporation and Bylaws

Heritage. Amendments to Heritage's Articles of Incorporation must be approved by Heritage's board of directors by a majority vote of the Board and by Heritage's shareholders by a majority of the voting group comprising all the votes entitled to be cast on the proposed amendment, and a majority of each other voting group entitled to vote separately on the proposed amendment; provided, however, that the affirmative vote of the holders of at least 66 2/3% of the voting power of all the then-outstanding shares entitled to vote generally in the election of directors (giving effect to the 10% voting limitation described above), voting together as a single class, is required to amend or repeal certain provisions of the articles of incorporation, including the provisions relating to the number of directors, classification of the Board and the filling of Board vacancies, the 10% voting limitation, "Business Combinations" with "Control Persons," indemnification and amendment of the articles of incorporation. Heritage's bylaws may be amended by its board of directors by vote of a majority of the whole Board or by Heritage's shareholders by the affirmative vote of a majority of the shares represented and entitled to vote on the subject matter.

Puget Sound. Amendments to Puget Sound's articles of incorporation require the affirmative vote of a majority of all the votes entitled to be cast by each voting group entitled to vote thereon. Subject to the power of the Puget Sound shareholders to change or repeal the bylaws, the board of directors is expressly authorized to make, amend, or repeal the bylaws, unless the shareholders in amending or repealing a particular bylaw provide expressly that the board of directors may not amend or repeal that bylaw.

#### Business Combinations with Certain Persons

Heritage. Heritage's articles of incorporation provide that certain business combinations (e.g., mergers, share exchanges, significant asset sales and share issuances) involving "control persons" of Heritage require, in addition to

any vote required by law, the approval of 66 2/3% of the voting power of the outstanding voting shares that is not beneficially owned by the control person in question, voting together as a single class, unless either (i) a majority of the "continuing directors," (generally those members of Heritage's board of directors who are unaffiliated with the control person and were directors prior to the time the control person became a 10% or greater shareholder of Heritage), have approved the business combination or (ii) certain fair price and procedure requirements are satisfied. A "control person" is defined to include any individual, corporation, partnership or other

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person or entity which owns beneficially or controls, directly or indirectly, 20% or more of the outstanding common shares of Heritage or an affiliate of such person or entity.

Puget Sound. The affirmative vote of a majority of all the votes entitled to be cast by each voting group entitled to vote thereon is required to approve a plan of merger or share exchange, the sale, lease, exchange or other disposition of all or substantially all of the property of Puget Sound.

#### DISSENTERS' RIGHTS

In accordance with Chapter 13 of the WBCA, Puget Sound's shareholders have the right to dissent from the merger and to receive payment in cash for the "fair value" of their Puget Sound common shares.

Puget Sound's shareholders electing to exercise dissenters' rights must comply with the provisions of Chapter 13 of the WBCA in order to perfect their rights. Puget Sound and Heritage will require strict compliance with the statutory procedures. The following is intended as a brief summary of the material provisions of the Washington statutory procedures required to be followed by a Puget Sound shareholder in order to dissent from the merger and perfect the shareholder's dissenters' rights. This summary, however, is not a complete statement of all applicable requirements and is qualified in its entirety by reference to Chapter 13 of the WBCA, the full text of which is set forth in Appendix C.

A shareholder who wishes to assert dissenters' rights must (i) deliver to Puget Sound before the vote is taken by Puget Sound shareholders notice of the shareholder's intent to demand payment for the shareholder's shares if the merger is effected, and (ii) not vote such shares in favor of the merger. A shareholder wishing to deliver such notice should hand deliver or mail such notice to Puget Sound at the following address prior to the special meeting of the shareholders:

Puget Sound Bancorp, Inc.

10500 NE 8th Street, Suite 1500

Bellevue, Washington 98004

Attention: Corporate Secretary

or deliver such notice at the special meeting of shareholders prior to the vote being taken by Puget Sound shareholders.

A shareholder who wishes to exercise dissenters' rights generally must dissent with respect to all the shares the shareholder owns or over which the shareholder has power to direct the vote. However, if a record shareholder is a nominee for several beneficial shareholders some of whom wish to dissent and some of whom do not, then the record holder may dissent with respect to all the shares beneficially owned by any one person by delivering to Puget Sound a notice of the name and address of each person on whose behalf the record shareholder asserts dissenters' rights. A beneficial shareholder may assert dissenters' rights directly by submitting to Puget Sound the record shareholder's written consent and by dissenting with respect to all the shares of which such shareholder is the beneficial shareholder or over which such shareholder has power to direct the vote.

A shareholder who does not deliver to Puget Sound prior to the vote being taken by Puget Sound shareholders a notice of the shareholder's intent to demand payment for the "fair value" of the shares will lose the right to exercise dissenters' rights. In addition, any shareholder electing to exercise dissenters' rights must either vote against the merger agreement or abstain from voting. 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 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 the merger is effected, Heritage as the surviving corporation shall, within ten days after the effective date of the merger, deliver a written notice to all shareholders who properly perfected their dissenters' rights in accordance with Chapter 13 of the WBCA. Such notice will, among other things: (i) state where the payment demand must be sent and where and when certificates for certificated shares must be deposited; (ii) inform holders of uncertificated shares to what extent transfer of the shares will be restricted after the payment demand is received; (iii) supply a form for demanding payment that includes the date of the first announcement to news media or to shareholders of the terms of the proposed transaction and requires that the person asserting dissenters' rights certify whether or not the person acquired beneficial ownership of the shares before that date; and (iv) set a date by which Heritage must receive the payment demand, which date will be between 30 and 60 days after notice is delivered.





A shareholder wishing to exercise dissenters' rights must timely file the payment demand, certify whether the shareholder acquired beneficial ownership of the shares before the date of the first announcement to news media or to shareholders of the proposed transaction, and deliver share certificates as required in the notice. Failure to do so will cause such person to lose his or her dissenters' rights.

Within thirty (30) days after the merger occurs or receipt of the payment demand, whichever is later, Heritage shall pay each dissenter with properly perfected dissenters' rights Heritage's estimate of the "fair value" of the shareholder's interest, plus accrued interest from the effective date of the merger. With respect to a dissenter who did not beneficially own Puget Sound shares prior to the public announcement of the merger, Heritage is not required to make the payment until after the dissenter has agreed to accept the payment in full satisfaction of the dissenter's demands. "Fair value" means the value of the shares immediately before the effective date of the merger, excluding any appreciation or depreciation in anticipation of the merger. The rate of interest is generally required to be the average rate currently paid by Heritage on its principal bank loans or, if none, at a rate that is fair and equitable. Shareholders should note that investment banker opinions as to the fairness, from a financial point of view, of the consideration payable in a transaction such as the merger are not opinions as to, and do not address in any respect, fair value under Chapter 13 of the WBCA.

A dissenter who is dissatisfied with Heritage's estimate of the fair value or believes that interest due is incorrectly calculated may notify Heritage of the dissenter's estimate of the fair value and amount of interest due. If Heritage does not accept the dissenter's estimate and the parties do not otherwise settle on a fair value then Heritage must, within 60 days, petition a court to determine the fair value.

#### ADJOURNMENT OR POSTPONEMENT OF THE SPECIAL MEETING

In the event that there are not sufficient votes to constitute a quorum or approve the merger agreement at the time of the special meeting, the merger agreement cannot be approved at the meeting unless the special meeting is adjourned to a later date or dates to permit further solicitation of proxies. In order to allow proxies that have been received by Puget Sound at the time of the special meeting to be voted for an adjournment, if deemed necessary, Puget Sound has submitted the adjournment proposal to its shareholders as a separate matter for their consideration.

Other than an announcement to be made at the special meeting of the time, date and place of an adjourned meeting, an adjournment or postponement generally may be made without notice. Any adjournment or postponement of the special meeting for the purpose of soliciting additional proxies will allow the shareholders who have already sent in their proxies to revoke them at any time prior to their use at the special meeting as adjourned or postponed.

#### OTHER MATTERS

The Puget Sound board of directors is not aware of any business to come before the special meeting other than those matters described above in this proxy statement/prospectus. However, if any other matters should properly come before the special meeting, it is intended that proxies in the accompanying form will be voted in respect thereof in accordance with the judgment of the person or persons voting the proxies.

#### LEGAL MATTERS

The validity of the common shares offered hereby will be passed upon for Heritage by Breyer & Associates PC. Certain U.S. federal income tax consequences relating to the merger will also be passed upon for Heritage by Silver, Freedman, Taff & Tiernan LLP and for Puget Sound by Keller Rohrback L.L.P.

#### EXPERTS

The consolidated financial statements of Heritage as of December 31, 2016 and 2015 and for each of the years in the three year period ended December 31, 2016 and the effectiveness of Heritage's internal control over financial reporting as of December 31, 2016 have been audited by Crowe Horwath LLP, an independent registered public accounting firm, as set forth in their report appearing in our Annual Report on Form 10-K for the year ended December 31, 2016 and incorporated in this prospectus by reference. Such consolidated financial statements have been so incorporated in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

#### WHERE YOU CAN FIND MORE INFORMATION

Heritage files annual, quarterly and current reports, proxy statements and other information with the SEC. You may read and copy these filings at the SEC's public reference room located at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. Heritage's and Puget Sound's SEC filings also are available to the public on the SEC's website at [www.sec.gov](http://www.sec.gov), which contains reports, proxies and information statements and other information regarding issuers that file electronically.

Heritage filed with the SEC a registration statement on Form S-4 under the Securities Act of 1933 with respect to the Heritage common shares to be issued in the merger. This document is a part of that registration statement and constitutes a prospectus of Heritage in addition to being a proxy statement of Puget Sound for its special meeting. As permitted by SEC rules, this document does not contain all the information contained in the registration statement or the exhibits to the registration statement. The additional information may be inspected and copied as set forth above. The SEC permits the incorporation by reference of information regarding Heritage into this document, which means that important business and fina