

HERITAGE FINANCIAL CORP /WA/  
Form 424B3  
November 20, 2017  
Filed Pursuant to Rule 424(b)(3)  
Registration Statement No. 333-221013

To the Shareholders of Puget Sound Bancorp:

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

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

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

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

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

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

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

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

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

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

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



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

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

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

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

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

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

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

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

We look forward to seeing you at the special meeting.

James R. Mitchell, Jr.

President and Chief Executive Officer

Puget Sound Bancorp, Inc.

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

or accuracy of this proxy statement

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

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

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## 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 November 13, 2017, and you should assume that the information in this proxy statement/prospectus is accurate only as of such date. You should assume that the information incorporated by reference into this proxy statement/prospectus is accurate as of the date of the document that includes such information. Neither the mailing of this proxy statement/prospectus to Puget Sound shareholders nor the issuance by Heritage of Heritage common shares in connection with the merger will create any implication to the contrary.

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

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

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

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

TO OUR SHAREHOLDERS:

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

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

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

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

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

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

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

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

BY ORDER OF  
THE BOARD OF  
DIRECTORS

November 20, 2017 Philip I. Mitterling  
Secretary



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

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

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

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

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

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

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

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

(1) In thousands.

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

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

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

Table V.

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

(1) In thousands.

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

Yes.

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

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

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

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

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

A5:

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

Q6: How do I vote?

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

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

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

Q7: How many votes do I have?

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

Q8: What constitutes a quorum at the special meeting?

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

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

Q9: Why is my vote important?

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Q17: When do you expect to complete the merger?

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

Q18: What happens if the merger is not completed?

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

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

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



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

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

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

A21:

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

## SUMMARY

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

The companies

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

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

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

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

The merger (Page 31)

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

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

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

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

The merger agreement (Page 53)

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

Consideration to be received in the merger (Page 54)

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

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

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

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

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

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

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

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



## Share price information (Page 25)

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

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

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

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

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

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

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

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

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

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

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

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

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

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



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

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

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

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

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

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

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

Accounting treatment (Page 48)

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

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

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

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

Puget Sound shareholders have dissenters' rights (Page 73)

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

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

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

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

Additional conditions to consummation of the merger (Page 61)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Comparison of shareholder rights (Page 71)

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

Litigation relating to the merger (Page 53)

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

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

The special meeting (Page 27)

Meeting Information and Vote Requirements

The special meeting of Puget Sound's shareholders will be held on January 4, 2018, at 3:00 p.m., local time, at Daniel's Broiler, located at 10500 N.E. 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 November 6, 2017. You may cast one vote for each Puget Sound common share you owned at that time. Approval of the merger agreement requires the affirmative vote of the holders of a majority of the outstanding Puget Sound common shares. If you mark "ABSTAIN" on your proxy, or fail to submit a proxy and fail to vote in person at the Puget Sound special meeting or if your shares are held in street name and you fail to instruct your bank or broker how to vote with respect to the merger agreement, it will have the same effect as a vote "AGAINST" the merger agreement.

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

## RISK FACTORS

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

### Risks Related to the Merger

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

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

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

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

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



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

#### Risks Relating to Heritage and Heritage's Business

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

#### CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This document, including information included or incorporated by reference in this document, may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and Heritage and Puget Sound intend for such forward-looking statements to be covered by the safe harbor provisions for forward looking statements contained in the Private Securities Litigation Reform Act of 1995. These forward-looking statements include, but are not limited to, (i) statements about the benefits of the merger, including future financial and operating results, cost savings, enhancements to revenue and accretion to reported earnings that may be realized from the merger; (ii) statements about our respective plans, objectives, expectations and intentions and other statements that are not historical facts; (iii) statements about expectations regarding the timing of the closing of the merger and the ability to obtain regulatory approvals on a timely basis; and (iv) other statements identified by words such as "expects," "projects," "anticipates," "intends," "plans," "believes," "seeks," "estimates," "possible," "potential," "strategy," or words of similar meaning. These forward-looking statements are based on current beliefs and expectations of Heritage's and Puget Sound's respective management and are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are difficult to predict and beyond Heritage's and Puget Sound's control. In addition, these forward-looking statements are subject to assumptions with respect to future business strategies and decisions that are subject to change.

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

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

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

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

## SELECTED CONSOLIDATED FINANCIAL INFORMATION OF HERITAGE

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

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

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

(footnotes appear on the following page)

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

	At or for the Six Months Ended June 30,		At or for the Year Ended December 31,				
	<u>2017</u>	<u>2016</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
(Dollars in thousands, except per share data)							
<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

(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				