



NASDAQ: HFWA



NASDAQ: WBCO

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## **Attractive Pacific Northwest Partnership**

**October 23, 2013**

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# Forward-Looking Statements

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When used in this presentation and in other documents filed with or furnished to the Securities and Exchange Commission (the “SEC”), in press releases or other public shareholder communications, or in oral statements made with the approval of an authorized executive officer, the words or phrases “believe,” “will,” “will likely result,” “are expected to,” “will continue,” “is anticipated,” “estimate,” “project,” “plans,” or similar expressions are intended to identify “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. You are cautioned not to place undue reliance on any forward-looking statements, which speak only as of the date such statements are made. These statements may relate to future financial performance, strategic plans or objectives, revenues or earnings projections, or other financial information. By their nature, these statements are subject to numerous uncertainties that could cause actual results to differ materially from those anticipated in the statements. Statements about the expected timing, completion and effects of the proposed merger and all other statements in this release other than historical facts constitute forward-looking statements.

In addition to the factors previously disclosed in Heritage’s and Washington Banking’s reports filed with the SEC, important factors that could cause actual results to differ materially from the results anticipated or projected include, but are not limited to, the following: (1) expected revenues, cost savings, synergies and other benefits from the Heritage-Washington Banking merger might not be realized within the expected time frames or at all and costs or difficulties relating to integration matters, including but not limited to customer and employee retention, might be greater than expected; (2) the requisite shareholder and regulatory approvals for the Heritage-Washington Banking merger might not be obtained; (3) the credit risks of lending activities, including changes in the level and direction of loan delinquencies and write-offs and changes in estimates of the adequacy of the allowance for loan losses, which could necessitate additional provisions for loan losses, resulting both from loans originated and loans acquired from other financial institutions; (4) results of examinations by regulatory authorities, including the possibility that any such regulatory authority may, among other things, require increases in the allowance for loan losses or writing down of assets; (5) competitive pressures among depository institutions; (6) interest rate movements and their impact on customer behavior and net interest margin; (7) the impact of repricing and competitors’ pricing initiatives on loan and deposit products; (8) fluctuations in real estate values; (9) the ability to adapt successfully to technological changes to meet customers’ needs and developments in the market place; (10) the ability to access cost-effective funding; (11) changes in financial markets; (12) changes in economic conditions in general and in Western Washington and the Pacific Northwest in particular; (13) the costs, effects and outcomes of litigation; (14) new legislation or regulatory changes, including but not limited to the Dodd-Frank Act and regulations adopted thereunder, changes in capital requirements pursuant to the Dodd-Frank Act and the implementation of the Basel III capital standards, other governmental initiatives affecting the financial services industry and changes in federal and/or state tax laws or interpretations thereof by taxing authorities; (15) changes in accounting principles, policies or guidelines; (16) future acquisitions by Heritage of other depository institutions or lines of business; and (17) future goodwill impairment due to changes in Heritage’s business, changes in market conditions, or other factors.

Annualized pro forma, projected and estimated numbers are used for illustrative purposes only, are not forecasts, and may not reflect actual results. Neither Heritage nor Washington Banking undertakes any obligation to update any forward-looking statement to reflect circumstances or events that occur after the date on which the forward-looking statement is made.

# Strategic Merger Rationale

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## Compelling Strategic Partnership

- \$3.3 billion in total assets with 73 branches from Bellingham, WA to Portland, OR<sup>(1)</sup>
- A strategic partnership between two culturally similar Washington community banks
- Significant franchise value
  - Logical geographic fit: complementary Western Washington footprint along the I-5 corridor
  - Combination of two respected market leaders in strong financial position
  - Approximately 24% EPS accretion in 2015<sup>(2)(3)</sup>

## Shareholder Value Proposition

- Effective use of capital will enhance returns and shareholder value for both HFWA and WBCO
- Achieve operational scale and realize efficiencies as a larger combined franchise
  - Well-positioned for continued growth and fill-in opportunities
  - Increased market visibility

## Low Risk Profile

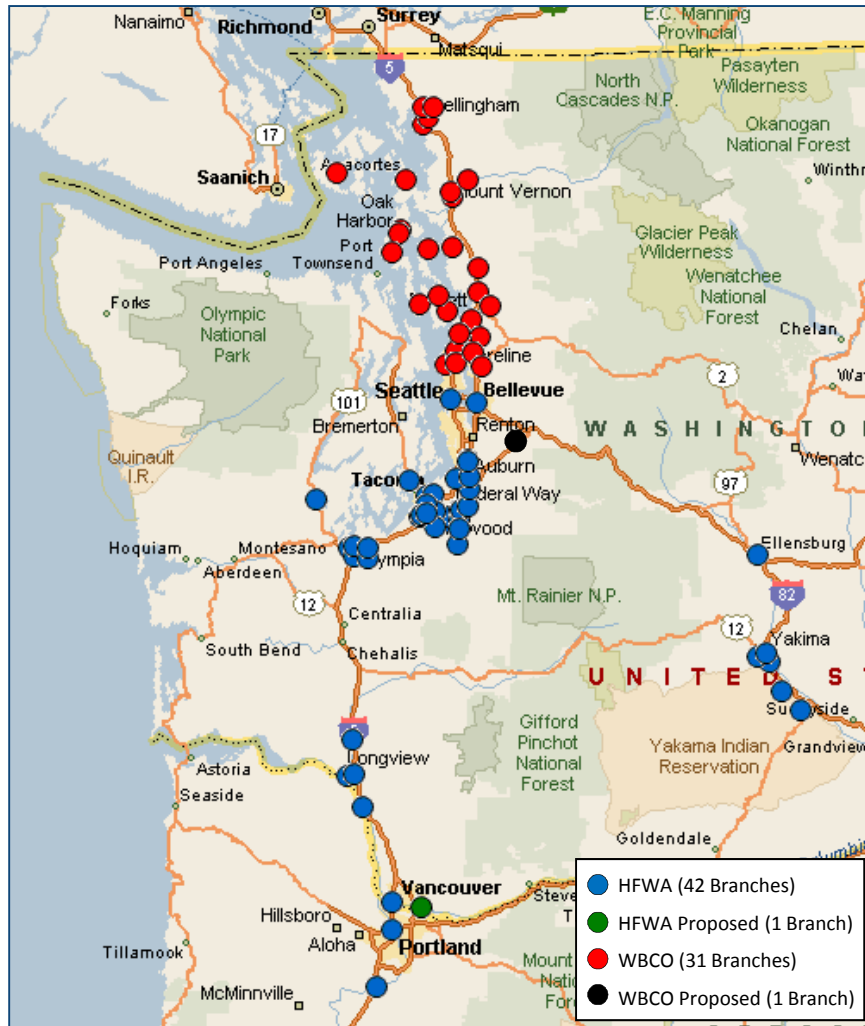
- Low risk profile, considerable upside opportunity
  - Conservative approach to pro forma assumptions supported by significant, mutual due diligence
  - Experienced management teams working together
  - Both companies are experienced integrators
  - Similar customer base, markets and business strategy
  - Shared credit quality discipline
  - Strong pro forma capital position

(1) 42 HFWA branches as of 9/30/2013 will be reduced to 35 branches as of 12/31/2013

(2) Mean EPS estimate for 2014 per SNL FactSet research. EPS estimate in 2015 based on 7.50% long-term growth rate

(3) EPS accretion excludes non-recurring merger related costs

# Compelling Pro Forma Footprint



- Combination creates \$3.3 billion asset franchise with 73 branch locations<sup>(1)</sup> across Washington and Oregon from Bellingham, WA to Portland, OR
- Logical geographic fit
  - Strength from the North (WBCO) joining strength from the South (HFWA)
  - Doubles the branch footprint along the I-5 corridor
  - #3 deposit market share within combined market area among banks and thrifts headquartered in the state of Washington<sup>(2)</sup>
- Strength of both franchises will provide momentum for accelerated growth initiatives in King County (Greater Seattle / Bellevue)
  - Larger scale, deeper resources, creates new opportunities

Source: SNL Financial and FDIC deposit reports, as of 6/30/2013

(1) 42 HFWA branches as of 9/30/2013 will be reduced to 35 branches as of 12/31/2013

(2) Combined footprint of all counties in Washington with either a HFWA branch or WBCO branch. Includes all institutions with corporate headquarters in the state of Washington

# Merger Summary

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<b>Name</b>	<ul style="list-style-type: none"><li>Heritage Financial Corporation / Heritage Bank<ul style="list-style-type: none"><li>Will do business as “Whidbey Island Bank” in Whidbey Island markets</li></ul></li></ul>
<b>Headquarters</b>	<ul style="list-style-type: none"><li>Olympia, Washington</li></ul>
<b>Management<sup>(1)</sup></b>	<ul style="list-style-type: none"><li><u>HFWA</u>: Brian Vance (CEO), Jeff Deuel (COO), Don Hinson (CFO) and Dave Spurling (CCO)</li><li><u>WBCO</u>: Jack Wagner (Advisor), Bryan McDonald (CLO), Ed Eng (CAO) and Lynn Garrison (HR)</li></ul>
<b>Board Composition</b>	<ul style="list-style-type: none"><li>8 directors from HFWA / 7 directors from WBCO (including Chairman)</li></ul>
<b>Targeted Closing</b>	<ul style="list-style-type: none"><li>1H 2014</li></ul>
<b>Ownership</b>	<ul style="list-style-type: none"><li>54% HFWA / 46% WBCO</li></ul>
<b>Shares Outstanding</b>	<ul style="list-style-type: none"><li>Pro forma shares outstanding of 30.0 million</li></ul>
<b>Consideration</b>	<ul style="list-style-type: none"><li>Fixed exchange ratio of 0.8900x HFWA shares and \$2.75 in cash per WBCO share</li><li>Transaction value of \$265.1 million / \$16.89 per share<sup>(2)</sup></li></ul>
<b>Required Approvals</b>	<ul style="list-style-type: none"><li>Customary regulatory and shareholder approvals of both HFWA and WBCO</li></ul>
<b>Capital</b>	<ul style="list-style-type: none"><li>Pro forma company will maintain well-capitalized position</li></ul>
<b>Due Diligence</b>	<ul style="list-style-type: none"><li>Performed extensive, reciprocal due diligence, including 3<sup>rd</sup> party loan review and 3<sup>rd</sup> party fair value analysis</li></ul>

# Financial Impact

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## Financially Compelling

- EPS accretion of approximately 13% in 2014 and approximately 24% in 2015<sup>(1)(2)</sup>
- Tangible book value per share dilution of approximately 12.8% at closing
  - Payback period of approximately 2.0 years based on incremental earnings method<sup>(3)</sup>
  - Payback period of approximately 4.9 years based on traditional EPS method<sup>(4)</sup>
- IRR of ~18.0%
- Pro forma ROAA above 1.00% and ROATCE above 10.0%<sup>(2)</sup>
- Strong pro forma capital position – TCE ratio and leverage ratio above 9.0% and 10.0% respectively

## Consideration<sup>(5)</sup>

- Transaction value of approximately \$265.1 million, or \$16.89 per share for WBCO
  - \$14.14 per share in stock and \$2.75 per share in cash
  - Consideration mix of approximately 83.9% stock and 16.1% cash
- Market premium of 18.5% based on WBCO closing stock price of \$14.25 per share
- 15.8x last-twelve-month earnings per share
- 149.0% of tangible book value per share as of 9/30/2013

Source: SNL Financial, financial data as of 9/30/2013

(1) Mean EPS estimate for 2014 per SNL FactSet research. EPS estimate in 2015 based on 7.50% long-term growth rate

(2) EPS accretion in 2014 and 2015 excludes non-recurring merger related costs

(3) Payback period based on the number of years it takes to eliminate the tangible book value per share dilution with the estimated incremental after-tax earnings per share provided by WBCO divided by pro forma fully diluted HFWA shares outstanding

(4) Payback period based on the number of years it takes to eliminate the tangible book value per share dilution with the estimated pro forma HFWA EPS accretion

(5) Based on HFWA price of \$15.89, market data as of 10/23/2013

# Key Merger Assumptions / Diligence

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## Credit / Rate Mark Assumptions

- Gross credit mark write-down of approximately \$26.7 million, or 3.04% of originated loans
- Interest rate mark write-down of approximately \$2.9 million, or 0.33% of originated loans
- Net mark<sup>(1)</sup> write-up of approximately \$1.1 million, or 0.71% of net balance of covered loans

## Other Mark Assumptions

- Write-down to fixed assets of \$1.8 million, or 5.00% of fixed assets
- Write-down to trust preferred securities of \$8.2 million, or 31.80%

## Cost Savings

- Approximately 10% of combined company non-interest expense, or 20% of standalone<sup>(2)</sup>
- Cost savings is 50% phased-in by 2014, 100% phased-in by 2015<sup>(2)</sup>

## Revenue Synergies

- Several areas of opportunity; but no revenue synergies included in the modeling

## One-Time Merger Costs

- After-tax one-time merger cost of \$11.9 million

## Branch Consolidation

- No expected branch consolidation

## Core Deposit Intangible

- Core deposit intangible asset of \$14.3 million, or 1.38% of core deposits amortized over 10 years based on sum-of-the-years digits methodology

## Dividends

- Anticipated pro forma dividend payout ratio of 35.0% to 40.0%

## Credit Review

- Experienced 3<sup>rd</sup> party review for loan portfolios of both HFWA and WBCO
- Included 3<sup>rd</sup> party review of originated loans, covered loans and impact to FDIC indemnification asset

(1) Net mark after including impact of WBCO's existing loan loss reserve, WBCO's existing purchase discount, FDIC indemnification asset adjustment, FDIC clawback liability adjustment and interest rate mark adjustment

(2) Excludes additional core deposit intangible asset amortization expense and changes in FDIC clawback liability

# Summary Pro Forma Financials



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

<b>Total Assets</b>	<b>\$1.7B</b>	<b>\$1.6B</b>	<b>\$3.3B</b>
<b>Total Loans<sup>(2)</sup></b>	<b>\$1.2B</b>	<b>\$1.1B</b>	<b>\$2.3B</b>
<b>Total Deposits</b>	<b>\$1.4B</b>	<b>\$1.4B</b>	<b>\$2.9B</b>
<b>Market Capitalization<sup>(3)</sup></b>	<b>\$266.0M</b>	<b>\$221.3M</b>	<b>\$477.3M</b>
<b>Number of Branches<sup>(4)</sup></b>	<b>42</b>	<b>31</b>	<b>73</b>
<b>Tangible Common Equity Ratio<sup>(5)</sup></b>	<b>11.29%</b>	<b>10.72%</b>	<b>9.27%</b>
<b>Leverage Ratio<sup>(5)</sup></b>	<b>11.60%</b>	<b>12.63%</b>	<b>10.25%</b>
<b>Risk Based Capital Ratio<sup>(5)</sup></b>	<b>16.73%</b>	<b>19.73%</b>	<b>15.58%</b>
<b>Non-Interest Bearing Demand (%)</b>	<b>25.4%</b>	<b>18.8%</b>	<b>22.1%</b>
<b>Cost of Deposits (Q3 2013)</b>	<b>0.27%</b>	<b>0.34%</b>	<b>0.31%</b>
<b>ROAA (Q3 2013)</b>	<b>0.80%</b>	<b>1.10%</b>	<b>1.00%+*</b>
<b>ROATCE (Q3 2013)</b>	<b>6.97%</b>	<b>10.40%</b>	<b>10.0%+*</b>
<b>Nonperforming Assets<sup>(6)</sup> / Total Assets</b>	<b>0.81%</b>	<b>0.89%</b>	<b>0.85%</b>

(1) Pro forma includes preliminary assumptions on purchase accounting and merger adjustments

(2) Includes gross loans purchased in whole bank and FDIC-assisted acquisitions since 2010

(3) Market capitalization as of 10/23/2013

(4) 42 HFWA branches as of 9/30/2013 will be reduced to 35 branches as of 12/31/2013

(5) Consolidated holding company

(6) Excludes TDRs and nonperforming assets from purchased loans and purchased OREO

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Source: Internal and public filings, as of 9/30/2013

Note: Please refer to the non-GAAP reconciliation for tangible common equity in appendix

Note: All quarterly ratios on an annualized basis

\*Following merger, with cost savings fully phased-in

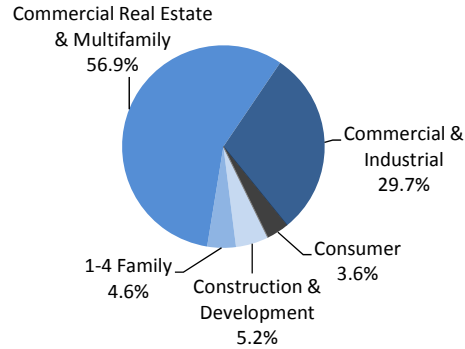




# Pro Forma Loans & Deposits

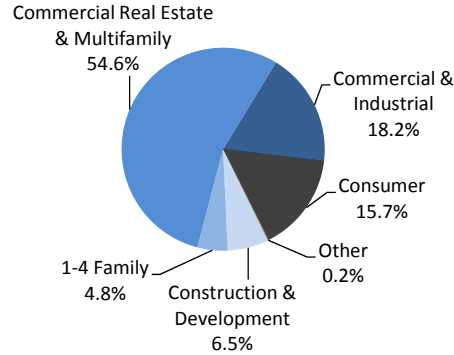
## Diversified Loan Portfolio<sup>(1)</sup>

### HFWA



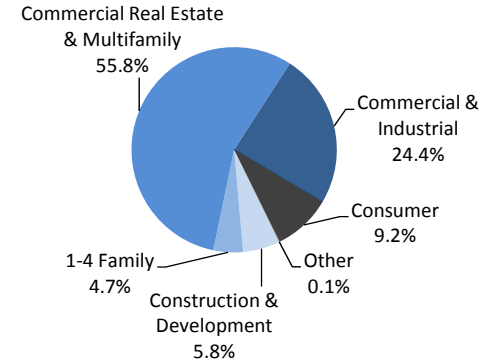
**\$1.2B Loans**  
5.83% Yield on Loans<sup>(1)</sup>

### WBCO



**\$1.1B Loans**  
6.08% Yield on Loans<sup>(1)</sup>

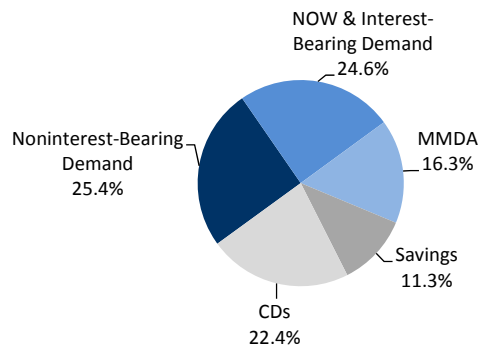
### Pro Forma<sup>(2)</sup>



**\$2.3B Loans**  
5.95% Yield on Loans<sup>(1)</sup>

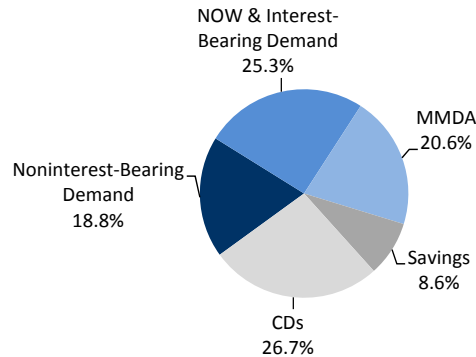
## Strong Core Deposit Base

### HFWA



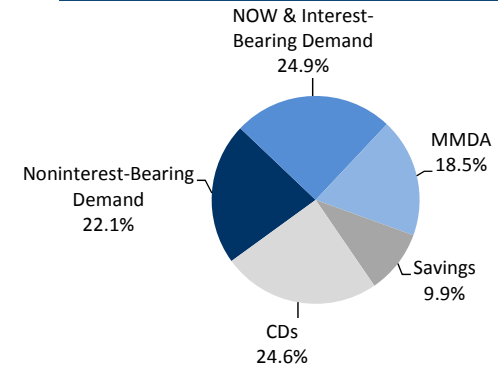
**\$1.4B Deposits**  
0.27% Cost of Deposits

### WBCO



**\$1.4B Deposits**  
0.34% Cost of Deposits

### Pro Forma<sup>(2)</sup>



**\$2.9B Deposits**  
0.31% Cost of Deposits

# Strong Pro Forma Market Position in Washington

- Strong pro forma market position in Washington - \$2.8 billion deposits and 71 branches<sup>(1)</sup>
- Pro forma company ranked 11<sup>th</sup> in deposit market share in Washington with 2.40% of total deposits in the state
  - Ranked 3<sup>rd</sup> in deposit market share among Washington-based institutions in combined footprint<sup>(2)</sup>

Washington-Based Institutions in Combined Footprint (Top 20)<sup>(2)</sup>

Rank	Institution (State)	# of Branches	Deposits (\$M)	Market Share
1	Washington Federal Inc. (WA)	61	\$ 4,158	3.53%
2	Columbia Banking System Inc. (WA)	57	\$ 2,889	2.45%
<b>3</b>	<b>PRO FORMA</b>	<b>71</b>	<b>\$ 2,819</b>	<b>2.40%</b>
3	HomeStreet Inc. (WA)	25	\$ 1,713	1.45%
4	Banner Corp. (WA)	37	\$ 1,609	1.37%
<b>5</b>	<b>Washington Banking Co. (WA)</b>	<b>31</b>	<b>\$ 1,411</b>	<b>1.20%</b>
<b>6</b>	<b>Heritage Financial Corp. (WA)</b>	<b>40</b>	<b>\$ 1,408</b>	<b>1.20%</b>
7	Peoples Bancorp (WA)	22	\$ 1,062	0.90%
8	Yakima FS&LA (WA)	5	\$ 889	0.76%
9	W.T.B. Financial Corp. (WA)	2	\$ 789	0.67%
10	Skagit State Bancorp Inc. (WA)	12	\$ 667	0.57%
11	First Financial Northwest Inc (WA)	1	\$ 642	0.55%
12	Olympia FS&LA (WA)	7	\$ 465	0.39%
13	Riverview Bancorp Inc. (WA)	11	\$ 464	0.39%
14	SKBHC Holdings LLC (WA)	12	\$ 404	0.34%
15	Coastal Financial Corp. (WA)	10	\$ 349	0.30%
16	Foundation Bancorp Inc. (WA)	1	\$ 311	0.26%
17	FS Bancorp Inc. (WA)	7	\$ 290	0.25%
18	Timberland Bancorp Inc. (WA)	11	\$ 289	0.25%
19	Puget Sound Bank (WA)	1	\$ 274	0.23%
20	Seattle Bank (WA)	6	\$ 184	0.16%
<b>Total Institutions</b>		<b>1,852</b>	<b>\$ 117,713</b>	<b>100.00%</b>

Washington (Top 20)

Rank	Institution (State)	# of Branches	Deposits (\$M)	Market Share
1	Bank of America Corp. (NC)	195	\$ 24,533	20.84%
2	Wells Fargo & Co. (CA)	154	\$ 13,550	11.51%
3	U.S. Bancorp (MN)	188	\$ 12,841	10.91%
4	JPMorgan Chase & Co. (NY)	212	\$ 11,122	9.45%
5	KeyCorp (OH)	164	\$ 8,556	7.27%
6	Washington Federal Inc. (WA)	83	\$ 5,041	4.28%
7	Umpqua Holdings Corp. (OR)	115	\$ 4,486	3.81%
8	Columbia Banking System Inc. (WA)	81	\$ 3,531	3.00%
9	Mitsubishi UFJ Finl Grp Inc.	45	\$ 3,079	2.62%
10	W.T.B. Financial Corp. (WA)	26	\$ 3,062	2.60%
<b>11</b>	<b>PRO FORMA</b>	<b>71</b>	<b>\$ 2,819</b>	<b>2.40%</b>
11	Banner Corp. (WA)	66	\$ 2,661	2.26%
12	HomeStreet Inc. (WA)	27	\$ 1,735	1.47%
<b>13</b>	<b>Washington Banking Co. (WA)</b>	<b>31</b>	<b>\$ 1,411</b>	<b>1.20%</b>
<b>14</b>	<b>Heritage Financial Corp. (WA)</b>	<b>40</b>	<b>\$ 1,408</b>	<b>1.20%</b>
15	Yakima FS&LA (WA)	10	\$ 1,402	1.19%
16	Peoples Bancorp (WA)	24	\$ 1,119	0.95%
17	Cashmere Valley Bank (WA)	11	\$ 1,094	0.93%
18	SKBHC Holdings LLC (WA)	35	\$ 1,082	0.92%
19	Opus Bank (CA)	24	\$ 968	0.82%
20	East West Bancorp Inc. (CA)	4	\$ 925	0.79%
<b>Total Institutions</b>		<b>1,852</b>	<b>\$ 117,713</b>	<b>100.00%</b>

Source: SNL Financial and FDIC deposit reports, as of 6/30/2013

Note: All dollars in millions, unless otherwise noted

(1) 40 HFVA branches in Washington as of 9/30/2013 will be reduced to 34 branches as of 12/31/2013

(2) Combined footprint of all counties in Washington with either a HFVA branch or WBCO branch. Includes all institutions with corporate headquarters in the state of Washington



# Complementary Business Models



	1927	1961	
<b>Year Established (Bank)</b>	<b>1927</b>	<b>1961</b>	
<b>Community Banking Focus</b>	✓	✓	✓
<b>Footprint Concentration:</b>			
North of King County		✓	✓
South of King County	✓		✓
Foothold in Portland, OR	✓		✓
North-South I-5 Corridor			✓
<b>Consumer Lending</b>		✓	✓
<b>Auto Lending</b>		✓	✓
<b>Fee Income Generation:</b>			
Mortgage Banking		✓	✓
SBA Lending	✓	✓	✓
Wealth Management	✓	✓	✓
Trust Powers	✓		✓
<b>SBA Rankings <sup>(1)</sup></b>	<b>#2</b>	<b>#1</b>	<b>#1</b>



(1) Source: SBA Lender rankings for SBA 504 loans between 10/1/2012 and 8/31/2013 based on number of loans in Seattle/Spokane market



# Benefits for All Stakeholders

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## Shareholders

- Enhance shareholder value for both companies through combination – financially attractive / compelling pro forma financial position
- Strengthens position of the company for future EPS growth and improved returns by leveraging capital
- Increased liquidity and market visibility with larger pro forma market capitalization

## Customers

- Similar strategy and commitment to client service at both companies
- Broader product offering for customer base - cross-sell opportunities in certain segments, such as consumer, auto lending, mortgages, SBA, wealth management, etc.
- Larger retail footprint to service expanded customer base

## Employees

- Retention of key management and employees is an important part of the partnership – strength from both companies
- Tenured board of directors committed to the partnership – both boards have strong links with respective communities
- No expected branch reduction

# Summary

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- ✓ Creates a premier Western Washington and Pacific Northwest community banking franchise
  - ✓ More valuable as a combined entity versus two independent companies
  - ✓ More branches than any other Washington-based bank in combined footprint<sup>(1)</sup>
- ✓ Logical fit – geographically, strategically and financially attractive
- ✓ Achieves quality operational scale
- ✓ Leverages the capital resources of both companies
  - ✓ Both sets of shareholders reinvesting in pro forma company
- ✓ Company is well-positioned for future organic and acquisitive growth
- ✓ Creates value for all stakeholders – shareholders, customers, employees and communities

# Questions & Answers

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## Questions and Answers

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### Heritage Financial Corporation

Brian Vance, President and CEO

Jeff Deuel, President and COO of Heritage Bank

Don Hinson, EVP and CFO

### Washington Banking Company

Jack Wagner, President and CEO

Bryan McDonald, President and CEO of Whidbey Island Bank

Rick Shields, EVP and CFO

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# Appendix

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# Strong Position in Primary Markets

- #3 deposit market share for combined footprint in Washington among banks and thrifts headquartered in the state of Washington<sup>(1)</sup>
- 73 combined branch locations<sup>(2)</sup> with no overlap – extensive geographic reach
- Market share leaders in North (WBCO) and South (HFWA) regions are joining forces
- Top 10 deposit market share in 11 of 15 counties

Market (County)	Heritage Financial Corporation				Washington Banking Company				Pro Forma	
	# of Branches	Deposit Balance	Market Share		# of Branches	Deposit Balance	Market Share		# of Branches	Deposit Balance
			Rank	% Share			Rank	% Share		
Pierce, WA	16	\$ 552,358	6	6.4%	0	\$ -	-	-	16	\$ 552,358
Thurston, WA	5	\$ 370,274	2	13.1%	0	\$ -	-	-	5	\$ 370,274
King, WA	7	\$ 153,366	24	0.3%	3	\$ 121,545	26	0.2%	10	\$ 274,911
Yakima, WA	5	\$ 133,111	8	4.7%	0	\$ -	-	-	5	\$ 133,111
Cowlitz, WA	4	\$ 93,330	2	17.3%	0	\$ -	-	-	4	\$ 93,330
Mason, WA	1	\$ 66,787	2	19.9%	0	\$ -	-	-	1	\$ 66,787
Kittitas, WA	1	\$ 24,494	8	3.9%	0	\$ -	-	-	1	\$ 24,494
Clark, WA	1	\$ 14,712	15	0.3%	0	\$ -	-	-	1	\$ 14,712
Multnomah, OR	1	\$ 15,249	27	0.1%	0	\$ -	-	-	1	\$ 15,249
Clackamas, OR	1	\$ 6,569	19	0.1%	0	\$ -	-	-	1	\$ 6,569
Snohomish, WA	0	\$ -	-	-	12	\$ 474,025	6	5.5%	12	\$ 474,025
Island, WA	0	\$ -	-	-	7	\$ 455,830	1	47.8%	7	\$ 455,830
Skagit, WA	0	\$ -	-	-	4	\$ 165,646	5	7.9%	4	\$ 165,646
Whatcom, WA	0	\$ -	-	-	4	\$ 161,363	9	5.3%	4	\$ 161,363
San Juan, WA	0	\$ -	-	-	1	\$ 32,395	5	7.8%	1	\$ 32,395
<b>Total Markets</b>	<b>42</b>	<b>\$ 1,430,250</b>	-	-	<b>31</b>	<b>\$ 1,410,804</b>	-	-	<b>73</b>	<b>\$ 2,841,054</b>

Source: SNL Financial and FDIC deposit reports, as of 6/30/2013

Note: All dollars in thousands

(1) Combined footprint of all counties in Washington with either a HFWA branch or WBCO branch. Includes all institutions with corporate headquarters in the state of Washington

(2) 42 HFWA branches as of 9/30/2013 will be reduced to 35 branches as of 12/31/2013 following previously announced consolidation





# HFWA Summary of 3<sup>rd</sup> Quarter Performance

## 3<sup>rd</sup> Quarter Highlights:

- Diluted earnings per common share of \$0.20 for the quarter on net income of \$3.3 million
  - Return on average assets of 0.80%
- Heritage completed the acquisition of Valley Community Bancshares, Inc. on July 15, 2013
- During the quarter Heritage completed \$8.6 million of stock repurchases with 556,809 shares repurchased at a weighted average price per share of \$15.84
- Net interest margin of 4.67%
- Efficiency ratio of 70.9% for the quarter
- Originated loan growth of \$29.4 million, or 12.6% annualized growth during the quarter
- Nonperforming originated loans decreased to 0.81% of total assets
- Heritage declared a regular cash dividend of \$0.08 per share

## HFWA 3<sup>rd</sup> Quarter Financial Summary

	9/30/2013	6/30/2013	9/30/2012
<b>Balance Sheet</b>			
Total Assets	\$1,674,417	\$1,425,635	\$1,366,582
Originated Loans (Excl. HFS)	\$961,892	\$932,488	\$871,959
Purchased Covered Loans, Net	\$63,484	\$74,957	\$89,005
Purchased Non-Covered Loans, Net	\$200,063	\$96,830	\$65,592
Total Deposits	\$1,425,985	\$1,196,531	\$1,133,700
Non-Int. Bearing Demand Deposits (%)	25.4%	22.9%	22.0%
<b>Performance</b>			
Net Income	\$3,290	\$2,690	\$2,863
ROAA	0.80%	0.75%	0.84%
ROAE	6.05%	5.33%	5.62%
Net Interest Margin	4.67%	4.82%	5.09%
Cost of Funds	0.27%	0.30%	0.38%
Efficiency Ratio	70.9%	71.1%	71.5%
NPAs / Total Assets	0.81%	1.07%	1.66%
Tg. Common Equity / Tangible Assets	11.29%	13.21%	13.90%

Source: Public filings, financials as of 9/30/2013  
 Note: Please refer to the non-GAAP reconciliation for tangible common equity in appendix  
 Note: All quarterly ratios on an annualized basis  
 Note: All dollars in thousands  
 Note: Nonperforming assets do not include purchased loans



# WBCO Summary of 3<sup>rd</sup> Quarter Performance

## 3<sup>rd</sup> Quarter Highlights:

- Diluted earnings per share of \$0.29 on net income of \$4.5 million for the quarter
  - Return on average assets of 1.10%
- Net interest margin of 4.59%
- Efficiency ratio of 63.8%
- Originated loan growth across all categories for both the quarter and the year with the exception of construction loans
- Asset quality continues to improve with nonperforming assets of 0.89% of total assets
- Non-CD deposit balances of \$1.0 billion, or 73% of total deposits as of the end of the quarter

## WBCO 3<sup>rd</sup> Quarter Financial Summary

	9/30/2013	6/30/2013	9/30/2012
<b><u>Balance Sheet</u></b>			
Total Assets	\$1,648,154	\$1,617,493	\$1,680,126
Originated Loans (Excl. HFS)	\$872,636	\$853,290	\$824,610
Covered Loans, Net	\$156,390	\$176,737	\$231,517
Total Deposits	\$1,429,279	\$1,404,372	\$1,458,230
<b><u>Performance</u></b>			
Net Income	\$4,502	\$2,908	\$4,638
ROAA	1.10%	0.71%	1.10%
ROATCE	10.07%	6.34%	11.06%
Net Interest Margin	4.59%	4.68%	5.48%
Efficiency Ratio	63.8%	44.2%	61.5%
NPAs / Assets	0.89%	0.96%	1.29%

Source: Public filings, financials as of 9/30/2013  
 Note: Please refer to the non-GAAP reconciliation for tangible common equity in appendix  
 Note: All quarterly ratios on an annualized basis  
 Note: All dollars in thousands  
 Note: Nonperforming assets do not include purchased loans

# Non-GAAP Reconciliation

This presentation contains certain non-GAAP financial measures in addition to results presented in accordance with Generally Accepted Accounting Principles (GAAP). These measures include tangible common equity, tangible book value per share and tangible common equity to tangible assets. Tangible common equity (tangible book value) excludes goodwill and other intangible assets. Tangible assets exclude goodwill and other intangible assets. Management has presented these non-GAAP financial measures in this presentation because it believes that they provide useful and comparative information to assess trends in the Company's capital reflected in the current quarter and year-to-date results. Where applicable, the Company has also presented comparable capital information using GAAP financial measures. Reconciliations of the GAAP and non-GAAP financial measures are presented below.

	HFWA 9/30/2013	WBCO 9/30/2013	Pro Forma (1) 9/30/2013
Shareholders' Equity	\$ 216,595	\$ 181,798	\$ 429,095
Less: Goodwill and Other Intangible Assets	31,137	5,698	131,424
Tangible Common Equity	185,458	176,100	297,672
Total Assets	1,674,417	1,648,154	3,344,255
Less: Goodwill and Other Intangible Assets	31,137	5,698	131,424
Tangible Assets	\$ 1,643,280	\$ 1,642,456	\$ 3,212,832
Tangible Common Equity / Tangible Assets	11.29%	10.72%	9.27%

# Additional Information For Shareholders

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Heritage will file a registration statement on Form S-4 with the SEC in connection with the proposed transaction. The registration statement will include a joint proxy statement of Heritage and Washington Banking that also constitutes a prospectus of Heritage, which will be sent to the shareholders of Heritage and Washington Banking. Shareholders are advised to read the joint proxy statement/prospectus when it becomes available because it will contain important information about Heritage, Washington Banking and the proposed transaction. When filed, this document and other documents relating to the merger filed by Heritage and Washington Banking can be obtained free of charge from the SEC's website at [www.sec.gov](http://www.sec.gov). These documents also can be obtained free of charge by accessing Heritage's website at <http://www.hf-wa.com/docs.aspx?iid=1024198> or by accessing Washington Banking's website at <http://investor.washingtonbanking.info/docs.aspx?iid=1025104>. Alternatively, these documents, when available, can be obtained free of charge from Heritage upon written request to Heritage Financial Corporation, Secretary, 201 Fifth Avenue S.W., Olympia, WA 98501 or by calling (360) 943-1500, or from Washington Banking, upon written request to Washington Banking Company, Secretary, 450 SW Bayshore Drive, Oak Harbor, Washington 98277 or by calling (360) 240-6458.

Heritage, Washington Banking and certain of their respective directors and executive officers may be deemed to be participants in the solicitation of proxies from shareholders in connection with the proposed transaction under the rules of the SEC. Information about these participants may be found in the definitive proxy statement of Heritage relating to its 2013 Annual Meeting of Shareholders filed with the SEC by Heritage on March 19, 2013 and the definitive proxy statement of Washington Banking relating to its 2013 Annual Meeting of Shareholders filed with the SEC on March 26, 2013. These definitive proxy statements can be obtained free of charge from the sources indicated above. Additional information regarding the interests of these participants will also be included in the joint proxy statement/prospectus regarding the proposed transaction when it becomes available.