

HERITAGE FINANCIAL CORP /WA/

Form 424B3

March 14, 2014

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**Filed Pursuant to Rule 424(b)(3)  
Registration Statement No. 333-192985**

## **MERGER PROPOSED YOUR VOTE IS VERY IMPORTANT**

Dear Shareholder:

We are pleased to report that the boards of directors of Heritage Financial Corporation, or Heritage, and Washington Banking Company, or Washington Banking, have each approved a merger of our two companies. We believe that this combination will create one of the premier community banking franchises in Western Washington and the Pacific Northwest. Under the merger agreement, Washington Banking will merge with and into Heritage, with Heritage as the surviving corporation. Each outstanding share of Washington Banking common stock, other than dissenting shares, will be converted into the right to receive, promptly following the completion of the merger, 0.89000 of a share of Heritage common stock and \$2.75 in cash.

Although the number of shares of Heritage common stock that holders of Washington Banking common stock will receive for the stock portion of the merger consideration is fixed, the market value of those shares will fluctuate with the market price of Heritage common stock and will not be known at the time Washington Banking shareholders vote on the merger agreement. Based on the closing price of Heritage's common stock of \$15.89 on the NASDAQ Global Select Market, or NASDAQ, on October 23, 2013, immediately prior to the public announcement of the merger agreement, the value of the per share merger consideration payable to Washington Banking shareholders was \$16.89. Based on the closing price of Heritage's common stock of \$18.14 on NASDAQ on March 4, 2014, the last practicable trading day before the printing of this joint proxy statement/prospectus, the value of the per share merger consideration payable to Washington Banking shareholders was \$18.89. **We urge you to obtain current market quotations for Heritage common stock (NASDAQ: trading symbol HFWA ) and Washington Banking common stock (NASDAQ: trading symbol WBCO ).** Based on the number of shares of Washington Banking common stock currently outstanding and reserved for issuance under various equity plans, the maximum number of shares of Heritage common stock issuable in the merger is expected to be approximately 14.1 million.

Heritage and Washington Banking will each hold a special meeting of their respective shareholders in connection with the merger. Heritage and Washington Banking shareholders will be asked to vote to approve the merger agreement and related matters as described in the attached joint proxy statement/prospectus. Approval of the merger agreement by Heritage and Washington Banking shareholders requires the affirmative vote of the holders of two-thirds of the votes entitled to be cast.

The special meeting of Heritage shareholders will be held on April 14, 2014. The special meeting of Washington Banking shareholders will be held on April 15, 2014.

**Heritage's board of directors unanimously recommends that Heritage shareholders vote FOR approval of the Heritage merger proposal and FOR each of the other items to be considered at the Heritage special meeting.**

**Washington Banking's board of directors unanimously recommends that Washington Banking shareholders vote FOR approval of the Washington Banking merger proposal and FOR each of the other items to be considered at the Washington Banking special meeting.**

**This joint proxy statement/prospectus describes the special meetings of Heritage and Washington Banking, the documents related to the merger and other related matters. Please carefully read this entire joint proxy statement/prospectus, including Risk Factors, beginning on page 28, for a discussion of the risks relating to the proposed merger. You also can obtain information about Heritage and Washington Banking from documents that each has filed with the Securities and Exchange Commission.**

/s/ Brian L. Vance

/s/ John L. Wagner

Brian L. Vance

John L. Wagner

*President and Chief Executive Officer*

*President and Chief Executive Officer*

*Heritage Financial Corporation*

*Washington Banking Company*

**Neither the Securities and Exchange Commission nor any state securities commission or any bank regulatory agency has approved or disapproved the shares of Heritage stock to be issued in the merger or passed upon the adequacy or accuracy of this joint proxy statement/prospectus. Any representation to the contrary is a criminal offense.**

**The securities to be issued in the merger are not savings or deposit accounts or other obligations of any bank or nonbank subsidiary of Heritage or Washington Banking, and they are not insured by the Federal Deposit Insurance Corporation or any other governmental agency.**

*The date of this joint proxy statement/prospectus is March 4, 2014, and is first being mailed or otherwise delivered to the shareholders of Heritage and Washington Banking on or about March 14, 2014.*

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**Heritage Financial Corporation**

201 Fifth Avenue SW

Olympia, Washington 98501

(360) 943-1500

**Notice of Special Meeting of Heritage Financial Corporation Shareholders**

**Date: April 14, 2014**

**Time: 2:00 p.m., local time**

**Place: The DoubleTree Hotel,  
415 Capitol Way N., Olympia, Washington**

To Heritage Financial Corporation Shareholders:

We are pleased to notify you of and invite you to a special meeting of shareholders (which we refer to as the Heritage special meeting ). At the Heritage special meeting, you will be asked to vote on the following matters:

the approval of the Agreement and Plan of Merger, dated as of October 23, 2013, by and between Heritage and Washington Banking Company, pursuant to which Washington Banking will merge with and into Heritage, and the approval of the issuance of Heritage common stock to Washington Banking shareholders in connection with the merger (which we refer to as the Heritage merger proposal ); and

a proposal to adjourn the Heritage special meeting, if necessary or appropriate, to solicit additional proxies in favor of the Heritage merger proposal (which we refer to as the Heritage adjournment proposal ).

Only holders of record of Heritage common stock as of the close of business on February 28, 2014 are entitled to notice of, and to vote at, the Heritage special meeting and any adjournments or postponements of the Heritage special meeting. Approval of the Heritage merger proposal requires the affirmative vote of holders of at least two-thirds of the outstanding shares of Heritage common stock. The Heritage adjournment proposal will be approved if a majority of the votes cast on those proposals at the Heritage special meeting are voted in favor of those proposals.

**Heritage's board of directors has unanimously approved the merger agreement, has determined that the merger agreement and the transactions contemplated thereby, including the merger, are advisable and in the best interests of Heritage and its shareholders, and unanimously recommends that Heritage shareholders vote FOR the Heritage merger proposal, and FOR the Heritage adjournment proposal.**

**Your vote is very important.** We cannot complete the merger unless Heritage's shareholders approve the Heritage merger proposal.

To ensure your representation at the Heritage special meeting, please complete and return the enclosed proxy card or submit your proxy by telephone or via the Internet. Whether or not you expect to attend the Heritage special meeting in person, please vote promptly. If you hold your shares in street name through a bank, broker or other nominee and

wish to vote your shares in person at the Heritage special meeting, then you must obtain a legal proxy from the holder of record authorizing you to do so by contacting your bank, broker or other nominee.

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The enclosed joint proxy statement/prospectus provides a detailed description of the Heritage special meeting, the Heritage merger proposal, the documents related to the Heritage merger proposal and other related matters. We urge you to read the joint proxy statement/prospectus, including the documents incorporated in the joint proxy statement/prospectus by reference, and its appendices carefully and in their entirety.

By Order of the Board of Directors

Kaylene M. Lahn

*Senior Vice President and Corporate Secretary*

March 14, 2014

Olympia, Washington

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**Washington Banking Company**

450 SW Bayshore Drive

Oak Harbor, Washington 98277

(360) 240-6458

**Notice of Special Meeting of Washington Banking Company Shareholders**

**Date: April 15, 2014**

**Time: 10:00 a.m., local time**

**Place: Best Western Harbor Plaza,  
33175 State Route 20, Oak Harbor, Washington**

To Washington Banking Company Shareholders:

We are pleased to notify you of and invite you to a special meeting of shareholders (which we refer to as the Washington Banking special meeting ). At the Washington Banking special meeting, you will be asked to vote on the following matters:

the approval of the Agreement and Plan of Merger, dated as of October 23, 2013, by and between Heritage Financial Corporation and Washington Banking, pursuant to which Washington Banking will merge with and into Heritage (which we refer to as the Washington Banking merger proposal );

a proposal to adjourn the Washington Banking special meeting, if necessary or appropriate, to solicit additional proxies in favor of the Washington Banking merger proposal (which we refer to as the Washington Banking adjournment proposal ); and

the approval, on an advisory (non-binding) basis, of compensation that may become payable to certain executive officers of Washington Banking in connection with the merger (which we refer to as the Washington Banking compensation proposal ).

Only holders of record of Washington Banking common stock as of the close of business on February 28, 2014 are entitled to vote at the Washington Banking special meeting and any adjournments or postponements of the Washington Banking special meeting. Approval of the Washington Banking merger proposal requires the affirmative vote of holders of at least two-thirds of the outstanding shares of Washington Banking common stock. The Washington Banking adjournment proposal and Washington Banking compensation proposal will be approved if a majority of the votes cast on those proposals at the Washington Banking special meeting are voted in favor of those proposals.

**Washington Banking s board of directors has unanimously approved the merger agreement, has determined that the merger agreement and the transactions contemplated thereby, including the merger, are advisable and**

**in the best interests of Washington Banking and its shareholders, and unanimously recommends that Washington Banking shareholders vote FOR the Washington Banking merger proposal, FOR the Washington Banking adjournment proposal and FOR the Washington Banking compensation proposal.**

**Your vote is very important.** We cannot complete the merger unless Washington Banking's shareholders approve the Washington Banking merger proposal.

To ensure your representation at the Washington Banking special meeting, please complete and return the enclosed proxy card or submit your proxy by telephone or via the Internet. Whether or not you expect to attend the Washington Banking special meeting in person, please vote promptly. If you hold your shares in street name through a bank, broker or other nominee and wish to vote your shares in person at the Washington Banking special meeting, then you must obtain a legal proxy from the holder of record authorizing you to do so by contacting your bank, broker or other nominee.

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The enclosed joint proxy statement/prospectus provides a detailed description of the Washington Banking special meeting, the Washington Banking merger proposal, the documents related to the Washington Banking merger proposal and other related matters. We urge you to read the joint proxy statement/prospectus, including the documents incorporated in the joint proxy statement/prospectus by reference, and its appendices carefully and in their entirety.

In connection with the merger, Washington Banking shareholders will have the opportunity to exercise dissenters rights in accordance with the procedures specified in the Washington Business Corporation Act (Chapter 23B.13 of the Revised Code of Washington ( RCW and RCW Chapter 23B.13 )). RCW Chapter 23B.13 is included in the accompanying joint proxy statement/prospectus as **Appendix D. Prior to the vote on the Washington Banking merger proposal, Washington Banking shareholders who wish to assert dissenters rights must notify the Corporate Secretary of Washington Banking of their intent to dissent.** For information on how Washington Banking shareholders may perfect their right to dissent on the Washington Banking merger proposal, see the section of this joint proxy statement/prospectus entitled *The Merger Washington Banking Shareholder Dissenters Rights* on page 86. A dissenting shareholder who follows the required procedures may receive cash in an amount equal to the fair value of his or her shares of Washington Banking common stock in lieu of the merger consideration provided for under the merger agreement. A shareholder who chooses to dissent pursuant to RCW Chapter 23B.13 may provide the required notice specified therein to Washington Banking s principal executive offices at 450 SW Bayshore Drive, Oak Harbor, Washington 98277. For additional details about dissenters rights, please refer to the section entitled *The Merger Washington Banking Shareholder Dissenters Rights* on page 86 and **Appendix D** in the accompanying joint proxy statement/prospectus.

By Order of the Board of Directors

Shelly L. Angus

*Senior Vice President and Corporate Secretary*

March 14, 2014

Oak Harbor, Washington

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**REFERENCES TO ADDITIONAL INFORMATION**

This joint proxy statement/prospectus incorporates important business and financial information about Heritage and Washington Banking from documents filed with the Securities and Exchange Commission, or the SEC, that are not included in or delivered with this joint proxy statement/prospectus. You can obtain any of the documents filed with or furnished to the SEC by Heritage and/or Washington Banking at no cost from the SEC's website at <http://www.sec.gov>. You may also request copies of these documents, including documents incorporated by reference in this joint proxy statement/prospectus, at no cost by contacting the appropriate company:

Heritage Financial Corporation  
201 Fifth Avenue SW  
Olympia, Washington 98501  
Attention: Kaylene M. Lahn,

Washington Banking Company  
450 SW Bayshore Drive  
Oak Harbor, Washington 98277  
Attention: Shelly L. Angus,

Senior Vice President and

Senior Vice President and

Corporate Secretary

Corporate Secretary

(360) 943-1500

(360) 240-6458

**You will not be charged for any of these documents that you request. To obtain timely delivery of these documents, you must request them no later than five business days before the date of your company's special meeting. This means that Heritage shareholders requesting documents must do so by April 7, 2014, in order to receive them before the Heritage special meeting, and Washington Banking shareholders requesting documents must do so by April 8, 2014, in order to receive them before the Washington Banking special meeting.**

You should rely only on the information contained in, or incorporated by reference into, this document. No one has been authorized to provide you with information that is different from that contained in, or incorporated by reference into, this document. This document is dated March 4, 2014, and you should assume that the information in this document is accurate only as of such date. You should assume that the information incorporated by reference into this document is accurate as of the date of the document that includes such information. Neither the mailing of this document to Heritage shareholders or Washington Banking shareholders nor the issuance by Heritage of shares of Heritage stock in connection with the merger will create any implication to the contrary.

Information on the websites of Heritage or Washington Banking, or any subsidiary of Heritage or Washington Banking, is not part of this document or incorporated by reference herein. You should not rely on that information in deciding how to vote.

**This document 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 document regarding Heritage has been provided by Heritage and information contained in this document regarding Washington Banking has been provided by Washington Banking.**

See "Where You Can Find More Information" on page 132 for more details.

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A Agreement and Plan of Merger, dated as of October 23, 2013, by and between Heritage Financial Corporation and Washington Banking Company

B Opinion of D.A. Davidson & Co.

C Opinion of Sandler O Neill & Partners, L.P.

D RCW Chapter 23B.13 of the Washington Business Corporation Act

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**QUESTIONS AND ANSWERS ABOUT THE MERGER AND THE SPECIAL MEETINGS**

The following are some questions that you may have about the merger and the special meetings, and brief answers to those questions. We urge you to read carefully the entire joint proxy statement/prospectus because the information in this section does not provide all of the information that might be important to you with respect to the merger and the special meetings. Additional important information is contained in the documents incorporated by reference into this joint proxy statement/prospectus. See **Where You Can Find More Information** on page 132.

Unless the context otherwise requires, throughout this document, **Heritage** refers to Heritage Financial Corporation, **Washington Banking** refers to Washington Banking Company and **we, us and our** refers collectively to Heritage and Washington Banking.

**Q: What is the merger?**

A: Heritage and Washington Banking have entered into an Agreement and Plan of Merger, dated as of October 23, 2013 (which we refer to as the **merger agreement** ), pursuant to which Washington Banking will be merged with and into Heritage, with Heritage continuing as the surviving corporation (we refer to this transaction as the **merger** ). Immediately following the merger, Washington Banking's wholly owned subsidiary bank, Whidbey Island Bank, will merge with Heritage's wholly owned subsidiary bank, Heritage Bank (we refer to this transaction as the **bank merger** ). A copy of the merger agreement is attached to this joint proxy statement/prospectus as **Appendix A**.

**Q: Why am I receiving this joint proxy statement/prospectus?**

A: We are delivering this document to you because you are a shareholder of either Heritage or Washington Banking and this document is a joint proxy statement being used by both the Heritage and Washington Banking boards of directors to solicit proxies of their respective shareholders in connection with approval of the merger and related matters. This document is also a prospectus that is being delivered to Washington Banking shareholders because Heritage is offering shares of its stock to Washington Banking shareholders in connection with the merger. The merger cannot be completed unless the shareholders of Heritage approve the merger agreement and the issuance of Heritage stock in the merger (which we refer to as the **Heritage merger proposal** ) and the shareholders of Washington Banking adopt the merger agreement (which we refer to as the **Washington Banking merger proposal** ).

**Q: In addition to the Heritage merger proposal, what else are Heritage shareholders being asked to vote on?**

A: Heritage is soliciting proxies from its shareholders with respect to one additional proposal; completion of the merger is not conditioned upon approval of this additional proposal:

a proposal to adjourn the Heritage special meeting, if necessary or appropriate, to solicit additional proxies in favor of the Heritage merger proposal (which we refer to as the Heritage adjournment proposal ).

**Q: In addition to the Washington Banking merger proposal, what else are Washington Banking shareholders being asked to vote on?**

A: Washington Banking is soliciting proxies from holders of its common stock with respect to two additional proposals; completion of the merger is not conditioned upon approval of either of these additional proposals:

a proposal to adjourn the Washington Banking special meeting, if necessary or appropriate, to solicit additional proxies in favor of the Washington Banking merger proposal (which we refer to as the Washington Banking adjournment proposal ); and

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a proposal to approve, on an advisory (non-binding) basis, the compensation that certain executive officers of Washington Banking may receive that is based on or otherwise relates to the merger (which we refer to as the Washington Banking compensation proposal ).

**Q: What will Washington Banking shareholders receive in the merger?**

A: Each outstanding share of Washington Banking common stock (except for dissenting shares) will be converted into the right to receive, promptly following the completion of the merger, 0.89000 of a share of Heritage common stock and \$2.75 in cash (which we refer to as the merger consideration ). Heritage will not issue any fractional shares of Heritage common stock in the merger. Washington Banking shareholders who would otherwise be entitled to a fractional share of Heritage common stock upon completion of the merger will instead receive an amount in cash equal to the fractional share interest multiplied by the average of the volume weighted price (rounded to the nearest one ten thousandth) of Heritage common stock on NASDAQ for the ten trading days ending on the trading day immediately preceding the trading day the merger is completed (which we refer to as the average Heritage common stock price ).

Because the number of shares of Heritage common stock that holders of Washington Banking common stock will receive is fixed, the market value of the stock portion of the merger consideration will fluctuate with the market price of Heritage common stock and will not be known at the time Washington Banking shareholders vote on the merger agreement.

**Q: What will Heritage shareholders receive in the merger?**

A: Heritage shareholders will retain their shares, they will not receive any consideration for their shares in the merger. If you are a Heritage shareholder, each share of Heritage common stock that you hold before the merger will continue to represent one share of Heritage common stock after the merger.

**Q: How will the merger affect outstanding Washington Banking stock options and restricted stock unit awards?**

A: The outstanding Washington Banking stock options and restricted stock unit awards will be affected as follows: *Stock Options*. Each option granted by Washington Banking to purchase shares of Washington Banking common stock will be converted into an option to purchase Heritage common stock on the same terms and conditions as were applicable prior to the merger, subject to adjustment of the exercise price and the number of shares of Heritage common stock issuable upon exercise of such option based on the per share value of the merger consideration. All outstanding options granted by Washington Banking are fully vested.

*Restricted Stock Unit Awards*. Each restricted stock unit award in respect of a share of Washington Banking common stock will fully vest at the effective time of the merger and will be converted into a restricted stock unit award in respect of the number of shares of Heritage common stock on the same terms and conditions as were applicable prior to the merger, adjusted based on the per share value of the merger consideration.

**Q: How does Heritage's board of directors recommend that I vote at the Heritage special meeting?**

A: After careful consideration, Heritage's board of directors unanimously recommends that you vote **FOR** the Heritage merger proposal, and **FOR** the Heritage adjournment proposal.

Each of the directors and executive officers of Heritage has entered into a voting agreement with Washington Banking, pursuant to which they have agreed to vote **FOR** the Heritage merger proposal, and **FOR** any other matter required to be approved by the shareholders of Heritage to facilitate the transactions contemplated by the merger agreement. For more information regarding the voting agreements, please see the section entitled **The Merger Agreement - Voting and Support Agreements** beginning on page 103.

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For a more complete description of Heritage's reasons for the merger and the recommendations of the Heritage board of directors, please see the section entitled "The Merger: Heritage's Reasons for the Merger; Recommendation of Heritage's Board of Directors" beginning on page 53.

**Q: How does Washington Banking's board of directors recommend that I vote at the Washington Banking special meeting?**

A: After careful consideration, Washington Banking's board of directors unanimously recommends that you vote FOR the Washington Banking merger proposal, FOR the Washington Banking adjournment proposal and FOR the Washington Banking compensation proposal.

Each of the directors and executive officers of Washington Banking has entered into a voting agreement with Heritage, pursuant to which they have agreed to vote FOR the Washington Banking merger proposal, and FOR any other matter required to be approved by the shareholders of Washington Banking to facilitate the transactions contemplated by the merger agreement. For more information regarding the voting agreements, please see the section entitled "The Merger Agreement: Voting and Support Agreements" beginning on page 103.

For a more complete description of Washington Banking's reasons for the merger and the recommendations of the Washington Banking board of directors, please see the section entitled "The Merger: Washington Banking's Reasons for the Merger; Recommendation of Washington Banking's Board of Directors" beginning on page 55.

**Q: When and where are the special meetings?**

A: The Heritage special meeting will be held at The DoubleTree Hotel, 415 Capitol Way N., Olympia, Washington on April 14, 2014, at 2:00 p.m. local time.

The Washington Banking special meeting will be held at the Best Western Harbor Plaza, 33175 State Route 20, Oak Harbor, Washington on April 15, 2014, at 10:00 a.m. local time.

**Q: What do I need to do now?**

A: After you have carefully read this joint proxy statement/prospectus and have decided how you wish your shares to be voted, please promptly take the steps identified in the following sentences so that your shares are represented and voted at your company's special meeting, as applicable. If you hold your shares in your name as a shareholder of record, you must complete, sign, date and mail your proxy card in the enclosed postage-paid return envelope as soon as possible. Alternatively, you can provide your proxy directing how you want your shares voted through the internet or by telephone. Information and applicable deadlines for providing your proxy through the internet or by telephone are set forth in the enclosed proxy card instructions. If you hold your shares in street name through a bank or broker, you must direct your bank or broker how to vote in accordance with the instructions you have received from your bank or broker.

**Q: Who is entitled to vote?**

A: *Heritage Special Meeting.* Holders of record of Heritage common stock at the close of business on February 28, 2014 which is the date that the Heritage board of directors has fixed as the record date for the Heritage special meeting, are entitled to vote at the Heritage special meeting.

*Washington Banking Special Meeting.* Holders of record of Washington Banking common stock at the close of business on February 28, 2014, which is the date that the Washington Banking board of directors has fixed as the record date for the Washington Banking special meeting, are entitled to vote at the Washington Banking special meeting.

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**Q: How will my shares of common stock held in the Heritage Financial Corporation 401(k) Employee Stock Ownership Plan be voted?**

Heritage maintains a 401(k) employee stock ownership plan ( KSOP ) which owned 367,558 shares or 2.3% of Heritage's common stock as of the record date. Heritage employees participate in the KSOP. Each KSOP participant may instruct the trustee of the plan how to vote the shares of Heritage common stock allocated to his or her account under the KSOP by completing a vote authorization form. If a KSOP participant properly executes a vote authorization form, the KSOP trustee will vote the participant's shares in accordance with the participant's instructions. KSOP shares for which proper voting instructions are not received will not be voted. In order to give the trustee sufficient time to vote, all vote authorization forms, which are in the form of a proxy card, must be received from KSOP participants by the transfer agent on or before April 9, 2014.

**Q: What constitutes a quorum?**

A: *Heritage Special Meeting.* The presence at the Heritage special meeting, in person or by proxy, of holders of a majority of the outstanding shares of Heritage common stock entitled to vote at the special meeting will constitute a quorum for the transaction of business. Abstentions and broker-nonvotes will be treated as shares that are present at the meeting for the purpose of determining the presence of a quorum.

A: *Washington Banking Special Meeting.* The presence at the Washington Banking special meeting, in person or by proxy, of holders of at least a majority of the outstanding shares of Washington Banking common stock entitled to vote at the special meeting will constitute a quorum for the transaction of business. Abstentions and broker-nonvotes will be treated as shares that are present at the meeting for the purpose of determining the presence of a quorum.

**Q: If my shares are held in street name through a bank, broker or other nominee, will my bank, broker or other nominee vote my shares for me?**

A: No. Your bank, broker or other nominee cannot vote your shares without instructions from you. Please follow the voting instruction form provided by your bank, broker or other nominee. The effects of failing to instruct your bank, broker or other nominee how to vote your shares of Heritage or Washington Banking common stock on each of the proposals to be considered at the Heritage or Washington Banking special meetings are described below.

**Q: What is the vote required to approve each proposal at the Heritage special meeting?**

A: *Heritage merger proposal:* To approve the Heritage merger proposal, at least two-thirds of the Heritage common stock outstanding and entitled to vote thereon must be voted in favor of such proposal. If you mark **ABSTAIN** on your proxy, fail to submit a proxy or fail to vote in person at the Heritage special meeting or fail to instruct your bank or broker how to vote with respect to the Heritage merger proposal, it will have the same effect as a vote **AGAINST** the proposal.

*Heritage adjournment proposal:* The Heritage adjournment proposal will be approved if the votes cast in favor of such proposal at the Heritage special meeting exceed the votes cast in opposition. If you mark **ABSTAIN** on your proxy, fail to submit a proxy or fail to vote in person at the Heritage special meeting or fail to instruct your bank or broker how to vote with respect to the Heritage adjournment proposal, it will have no effect on the proposal.

**Q: What is the vote required to approve each proposal at the Washington Banking special meeting?**

A: *Washington Banking merger proposal:* To approve the Washington Banking merger proposal, at least two-thirds of the Washington Banking common stock outstanding and entitled to vote thereon must be voted in favor of such proposal. If you mark **ABSTAIN** on your proxy, fail to submit a proxy or fail to vote in

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person at the Washington Banking special meeting or fail to instruct your bank or broker how to vote with respect to the Washington Banking merger proposal, it will have the same effect as a vote AGAINST the proposal.

*Washington Banking adjournment proposal:* The Washington Banking adjournment proposal will be approved if the votes cast in favor of such proposal at the Washington Banking special meeting exceed the votes cast in opposition. If you mark ABSTAIN on your proxy, fail to submit a proxy or fail to vote in person at the Washington Banking special meeting or fail to instruct your bank or broker how to vote with respect to the Washington Banking adjournment proposal, it will have no effect on such proposal.

*Washington Banking compensation proposal:* The Washington Banking compensation proposal will be approved if the votes cast in favor of such proposal at the Washington Banking special meeting exceed the votes cast in opposition. If you mark ABSTAIN on your proxy, fail to submit a proxy or fail to vote in person at the Washington Banking special meeting or fail to instruct your bank or broker how to vote with respect to the Washington Banking compensation proposal, it will have no effect on such proposal.

**Q: What will happen if Washington Banking's shareholders do not approve the Washington Banking advisory (non-binding) proposal on compensation?**

A: The vote on the Washington Banking compensation proposal is a vote separate and apart from the vote to approve the Washington Banking merger proposal and other related proposals. You may vote for this proposal and against the Washington Banking merger proposal and other related proposals, or vice versa. Because the vote on this proposal is advisory only, it will not be binding on Heritage or Washington Banking and will have no impact on whether the merger is consummated or on whether any contractually obligated payments are made to Washington Banking's named executive officers. Washington Banking is seeking your approval of these payments, on an advisory (non-binding) basis, in order to comply with the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 and related SEC rules.

**Q: Why is my vote important?**

A: If you do not vote by proxy or in person at your company's special meeting, it will be more difficult for your company to obtain the necessary quorum to hold its special meeting. In addition, your failure to submit a proxy or vote in person, or failure to instruct your bank or broker how to vote, or abstention will have the same effect as a vote AGAINST the merger proposal at your company's special meeting. The merger agreement must be approved by the affirmative vote of the holders of at least two-thirds of the outstanding shares of Heritage common stock entitled to vote at the Heritage special meeting and approved by the affirmative vote of the holders of at least two-thirds of the outstanding shares of Washington Banking common stock entitled to vote at the Washington Banking special meeting.

**Q: Can I attend my company's special meeting and vote my shares in person?**

A: Yes. All shareholders of Heritage and all shareholders of Washington Banking, including shareholders of record and shareholders who hold their shares through banks, brokers, nominees or any other holder of record, are

invited to attend their respective meetings. Holders of record of Heritage and Washington Banking common stock can vote in person at the Heritage special meeting and Washington Banking special meeting, respectively. If you wish to vote in person at your company's special meeting and if you are a shareholder of record, you should bring the enclosed proxy card and proof of identity. If you hold your shares in street name through a broker, or beneficially own your shares through another holder of record, you will need to bring with you and provide to the inspectors of election proof of identity and a letter from your bank, broker, nominee or other holder of record confirming your beneficial ownership of common stock as of the record date and authorization for you to vote such shares at your company's special meeting (a legal proxy from your holder of record). At the appropriate time during your company's special meeting, the shareholders present will be asked whether anyone wishes to vote in person. You should raise your hand at this time to receive a ballot to record your vote. Everyone who attends the special meeting must abide by the rules for the conduct of the meeting distributed at the meeting by your company.

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**Q: Can I change my proxy or voting instructions?**

A: *Heritage shareholders:* Yes. If you are a holder of record of Heritage common stock, you may revoke your proxy at any time before it is voted by (1) signing and returning a proxy card with a later date, (2) delivering a written revocation to Heritage's corporate secretary, (3) attending the Heritage special meeting in person and voting by ballot at the special meeting, or (4) voting by telephone or the internet at a later time. Attendance at the Heritage special meeting will not automatically revoke your proxy. A revocation or later-dated proxy received by Heritage after the vote is taken at the Heritage special meeting will not affect your previously submitted proxy. Heritage's corporate secretary's mailing address is: Corporate Secretary, Heritage Financial Corporation, 201 Fifth Avenue SW, Olympia, Washington 98501. If you hold your shares in street name through a bank or broker, you should contact your bank or broker to change your voting instructions.

*Washington Banking shareholders:* Yes. If you are a holder of record of Washington Banking common stock, you may revoke your proxy at any time before it is voted by (1) signing and returning a proxy card with a later date, (2) delivering a written revocation to Washington Banking's corporate secretary, (3) attending the Washington Banking special meeting in person and voting by ballot at the special meeting, or (4) voting by telephone or the internet at a later time. Attendance at the Washington Banking special meeting by itself will not automatically revoke your proxy. A revocation or later-dated proxy received by Washington Banking after the vote is taken at the Washington Banking special meeting will not affect your previously submitted proxy. Washington Banking's corporate secretary's mailing address is: Corporate Secretary, Washington Banking Company, 450 SW Bayshore Drive, Oak Harbor, Washington 98277. If you hold your shares in street name through a bank or broker, you should contact your bank or broker to change your voting instructions.

**Q: Will Heritage be required to submit the proposal to approve the merger agreement to its shareholders even if Heritage's board of directors has withdrawn, modified or qualified its recommendation?**

A: Yes. Unless the merger agreement is terminated before the Heritage special meeting, Heritage is required to submit the proposal to approve the merger agreement to its shareholders even if Heritage's board of directors has withdrawn or modified its recommendation.

**Q: Will Washington Banking be required to submit the proposal to approve the merger agreement to its shareholders even if Washington Banking's board of directors has withdrawn, modified or qualified its recommendation?**

A: Yes. Unless the merger agreement is terminated before the Washington Banking special meeting, Washington Banking is required to submit the proposal to approve the merger agreement to its shareholders even if Washington Banking's board of directors has withdrawn or modified its recommendation.

**Q: What are the U.S. federal income tax consequences of the merger to Washington Banking shareholders?**

A:

The merger is intended to qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code, or Code. Assuming the merger qualifies as a reorganization, a U.S. holder of Washington Banking common stock generally will not recognize any gain or loss upon receipt of Heritage common stock in exchange for Washington Banking common stock in the merger, and will recognize gain (but not loss) in an amount not to exceed any cash received as part of the merger consideration (except with respect to any cash received upon exercise of dissenters' rights under Washington law and in lieu of a fractional share of Heritage common stock, as discussed below under Material U.S. Federal Income Tax Consequences of the Merger Receipt of Only Cash Consideration Upon Exercise of Dissenters' Rights and Cash Received Instead of a Fractional Share of Heritage Common Stock on page 118). It is a condition to the completion of the merger that Heritage and Washington Banking receive written opinions from their respective counsel to the effect that the merger will qualify as a reorganization within the meaning of Section 368(a) of the Code.

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**Q: Are Washington Banking shareholders entitled to dissenters' rights?**

A: Yes. If you want to exercise dissenters' rights, you must deliver to Washington Banking, before the vote is taken by Washington Banking shareholders on the approval of the merger agreement, written notice of your intent to exercise your dissenters' rights if the merger is completed. Also, you must vote against, or abstain from voting on, the approval of the merger agreement and follow other procedures, both before and after the Washington Banking special meeting, as described in **Appendix D**. Note that if you return a signed proxy card without voting instructions or with instructions to vote FOR the merger agreement, your shares will be automatically voted in favor of the merger agreement and you will lose all dissenters' rights available under Washington law. For further information, see The Merger Washington Banking Shareholder Dissenters' Rights on page 86.

**Q: Are Heritage shareholders entitled to dissenters' rights?**

A: No. Under Washington law Heritage shareholders do not have dissenters' rights.

**Q: If I am a holder of Washington Banking common stock in certificated form, should I send in my Washington Banking stock certificates now?**

A: No. Please do not send in your Washington Banking stock certificates with your proxy. After the merger, an exchange agent will send you instructions for exchanging Washington Banking stock certificates for the merger consideration. See The Merger Agreement Conversion of Shares; Exchange Procedures on page 91.

**Q: What should I do if I hold my shares of Washington Banking common stock in book-entry form?**

A: You are not required to take any special additional actions if your shares of Washington Banking common stock are held in book-entry form. After the completion of the merger, an exchange agent will send you instructions for exchanging your shares for the merger consideration. See The Merger Agreement Conversion of Shares; Exchange Procedures on page 91.

**Q: Whom may I contact if I cannot locate my Washington Banking stock certificate(s)?**

A: If you are unable to locate your original Washington Banking stock certificate(s), you should contact Computershare, Washington Banking's transfer agent, at (800) 962-4284.

**Q: Should Heritage shareholders do anything with their stock certificates?**

A:

No. Heritage stock certificates will not be exchanged and will remain outstanding after the merger without any action required by Heritage shareholders.

**Q: What should I do if I receive more than one set of voting materials?**

A: Heritage shareholders and Washington Banking shareholders may receive more than one set of voting materials, including multiple copies of this joint proxy statement/prospectus and multiple proxy cards or voting instruction cards. For example, if you hold shares of Heritage and/or Washington Banking common stock in more than one brokerage account, you will receive a separate voting instruction card for each brokerage account in which you hold such shares. If you are a holder of record of Heritage common stock or Washington Banking common stock and your shares are registered in more than one name, you will receive more than one proxy card. In addition, if you are a holder of both Heritage common stock and Washington Banking common stock, you will receive one or more separate proxy cards or voting instruction cards for each company. Please complete, sign, date and return each proxy card and voting instruction card that you receive or otherwise follow the voting instructions set forth in this joint proxy statement/prospectus to ensure that you vote every share of Heritage common stock and/or Washington Banking common stock that you own.

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**Q: When do you expect to complete the merger?**

A: Heritage and Washington Banking expect to complete the merger in the first half of 2014. However, neither Heritage nor Washington Banking can assure you of when or if the merger will be completed. Heritage and Washington Banking must first obtain the approval of Heritage shareholders and Washington Banking shareholders for the merger, as well as obtain necessary regulatory approvals and satisfy certain other closing conditions.

Heritage received approval for the bank merger from the Federal Deposit Insurance Corporation, or the FDIC, and the Washington Department of Financial Institutions, or DFI, on December 23, 2013 and January 3, 2014, respectively. On January 31, 2014, Heritage received a waiver from the Board of Governors of the Federal Reserve System, or the Federal Reserve Board, of its application requirements that would apply to this merger.

**Q: What happens if the merger is not completed?**

A: If the merger is not completed, holders of Washington Banking common stock will not receive any consideration for their shares in connection with the merger. Instead, Washington Banking will remain an independent public company and its common stock will continue to be listed and traded on NASDAQ. In addition, if the merger agreement is terminated in certain circumstances, a termination fee may be required to be paid by either Heritage or Washington Banking. See *The Merger Agreement Termination Fee* beginning on page 102 for a complete discussion of the circumstances under which termination fees will be required to be paid.

**Q: Whom should I call with questions?**

A: *Heritage shareholders:* If you have any questions concerning the merger or this joint proxy statement/prospectus, would like additional copies of this joint proxy statement/prospectus or need help voting your shares of Heritage common stock, please contact Kaylene M. Lahn, Senior Vice President and Corporate Secretary (360) 943-1500, or Heritage's proxy solicitor, Karen Smith of Advantage Proxy, toll-free at (877) 870-8565, or at [ksmith@advantageproxy.com](mailto:ksmith@advantageproxy.com).

*Washington Banking shareholders:* If you have any questions concerning the merger or this joint proxy statement/prospectus, would like additional copies of this joint proxy statement/prospectus or need help voting your shares of Washington Banking common stock, please contact Shelly L. Angus, Senior Vice President and Corporate Secretary, (360) 240-6458, or Washington Banking's proxy solicitor, Karen Smith of Advantage Proxy, toll-free at (877) 870-8565, or at [ksmith@advantageproxy.com](mailto:ksmith@advantageproxy.com).

**Table of Contents****SUMMARY**

*This summary highlights selected information from this joint proxy statement/prospectus and may not contain all of the information that is important to you. You should carefully read this entire document, including the appendices, and the other documents to which this document refers to fully understand the merger and the related transactions. A list of the documents incorporated by reference appears on page 132 under *Where You Can Find More Information*.*

**The Merger and the Merger Agreement (pages 45 and 89)**

The terms and conditions of the merger are contained in the merger agreement, which is attached to this joint proxy statement/prospectus as **Appendix A**. We encourage you to read the merger agreement carefully, as it is the legal document that governs the merger.

Under the terms of the merger agreement, Washington Banking will merge with and into Heritage, with Heritage as the surviving corporation (we refer to this transaction as the *merger*). Immediately following the merger, Washington Banking's wholly owned subsidiary bank, Whidbey Island Bank, will merge with Heritage's wholly owned subsidiary bank, Heritage Bank (we refer to this transaction as the *bank merger*).

**In the Merger, Holders of Washington Banking Common Stock Will Receive Shares of Heritage Common Stock and Cash (page 89)**

If the merger is completed, each outstanding share of Washington Banking common stock will be converted into the right to receive, promptly following the completion of the merger, 0.89000 of a share of Heritage common stock and \$2.75 in cash, which we refer to as the *merger consideration*. Heritage will not issue any fractional shares of Heritage common stock in the merger. Washington Banking shareholders who would otherwise be entitled to a fractional share of Heritage common stock upon completion of the merger will instead receive an amount in cash equal to the fractional share interest multiplied by the average Heritage common stock price. *For example, if you hold 1,001 shares of Washington Banking common stock, then for the stock portion of the merger consideration, you will receive 890 shares of Heritage common stock and a cash payment instead of the 0.89 fractional share of Heritage common stock that you otherwise would have received (1,001 shares × 0.89000 = 890.89 shares), and for the cash portion of the merger consideration, you will receive a cash payment of \$2,752.75 (1,001 × \$2.75).* We refer to the stock and cash consideration described above as the *merger consideration*.

Heritage's and Washington Banking's common stock are listed on NASDAQ under the symbols *HFWA* and *WBCO*, respectively. The following table shows the closing sale prices of Heritage common stock and Washington Banking common stock as reported on NASDAQ on October 23, 2013, immediately prior to the public announcement of the merger agreement, and on March 4, 2014, the last practicable trading day before the printing of this joint proxy statement/prospectus. This table also shows the implied value of the merger consideration payable for each share of Washington Banking common stock, calculated by multiplying the closing price of Heritage common stock on those dates by the exchange ratio of 0.89000 for the stock portion of the merger consideration, and adding to that amount \$2.75 for the cash portion of the merger consideration.

<b>Date</b>	<b>Heritage Closing Price</b>	<b>Washington Banking Closing Price</b>	<b>Implied Value of Merger Consideration for</b>
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**One Share of  
Washington  
Banking  
Common  
Stock**

October 23, 2013	\$	15.89	\$	14.25	\$	16.89
March 4, 2014	\$	18.14	\$	18.81	\$	18.89

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**Heritage Will Hold its Special Meeting on April 14, 2014 (page 35)**

The special meeting of Heritage shareholders will be held on April 14, 2014, at 2:00 p.m. local time, at The DoubleTree Hotel, 415 Capitol Way N., Olympia, Washington. At the Heritage special meeting, Heritage shareholders will be asked to:

approve the merger agreement and the issuance of Heritage common stock in connection with the merger (which we refer to as the Heritage merger proposal ); and

approve a proposal to adjourn the Heritage special meeting, if necessary or appropriate, to solicit additional proxies in favor of the Heritage merger proposal (which we refer to as the Heritage adjournment proposal ). Only holders of record of Heritage common stock at the close of business on February 28, 2014 will be entitled to vote at the Heritage special meeting. Each share of Heritage common stock is entitled to one vote on each proposal to be considered at the Heritage special meeting. As of the record date, there were 16,218,617 shares of Heritage common stock entitled to vote at the Heritage special meeting. As of the record date, the directors and executive officers of Heritage and their affiliates beneficially owned and were entitled to vote 1,090,184 shares of Heritage common stock representing approximately 7% of the shares of Heritage common stock outstanding on that date, which shares are subject to the voting and support agreements described below.

Concurrent with the execution of the merger agreement, each of Heritage s directors and executive officers entered into a voting and support agreement with Washington Banking under which he or she generally has agreed (1) to vote or cause to be voted in favor of the Heritage merger proposal and any other matter required to be approved by the shareholders of Heritage to facilitate the transactions contemplated by the merger agreement, all shares of Heritage common stock over which he or she or a member of his or her immediate family has, directly or indirectly, sole or shared voting power as of the record date for the Heritage special meeting and (2) subject to limited exceptions, not to sell or otherwise dispose of shares of Heritage common stock he or she beneficially owned as of the date of such voting and support agreement until after the approval of the Heritage merger proposal by the shareholders of Heritage. For additional information regarding the voting and support agreements, see The Merger Agreement Voting and Support Agreements on page 103.

To approve the Heritage merger proposal, at least two-thirds of the shares of Heritage common stock outstanding and entitled to vote thereon must be voted in favor of such proposal. The Heritage adjournment proposal will be approved if a majority of the votes cast at the Heritage special meeting are voted in favor of such proposal. If you mark ABSTAIN on your proxy, fail to submit a proxy or fail to vote in person at the Heritage special meeting or fail to instruct your bank or broker how to vote with respect to the Heritage merger proposal, it will have the same effect as a vote AGAINST the proposal. If you mark ABSTAIN on your proxy, fail to submit a proxy or fail to vote in person at the Heritage special meeting or fail to instruct your bank or broker how to vote with respect to the Heritage adjournment proposal, it will have no effect on the proposal.

**Heritage s Board of Directors Unanimously Recommends that Heritage Shareholders Vote FOR the Approval of the Heritage Merger Proposal and FOR the Other Proposal Presented at the Heritage Special Meeting (page 35)**

Heritage s board of directors has determined that the merger, the merger agreement and the transactions contemplated by the merger agreement are advisable and in the best interests of Heritage and its shareholders and has unanimously

approved the merger agreement. Heritage's board of directors unanimously recommends that Heritage shareholders vote FOR the approval of the Heritage merger proposal and FOR the other proposal presented at the Heritage special meeting. For the factors considered by Heritage's board of directors in reaching its decision to approve the merger agreement, see The Merger Heritage's Reasons for the Merger; Recommendation of Heritage's Board of Directors on page 53.

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**Washington Banking Will Hold its Special Meeting on April 15, 2014 (page 40)**

The special meeting of Washington Banking shareholders will be held on April 15, 2014, at 10:00 a.m. local time, at the Best Western Harbor Plaza, 33175 State Route 20, Oak Harbor, Washington. At the Washington Banking special meeting, holders of Washington Banking common stock will be asked to:

approve the merger agreement (which we refer to as the Washington Banking merger proposal );

approve a proposal to adjourn the Washington Banking special meeting, if necessary or appropriate, to solicit additional proxies in favor of the Washington Banking merger proposal (which we refer to as the Washington Banking adjournment proposal ); and

approve, on an advisory (non-binding) basis, the compensation that certain executive officers of Washington Banking may receive in connection with the merger (which we refer to as the Washington Banking compensation proposal ).

Only holders of record of Washington Banking common stock at the close of business on February 28, 2014 will be entitled to vote at the Washington Banking special meeting. Each share of Washington Banking common stock is entitled to one vote on each proposal to be considered at the Washington Banking special meeting. As of the record date, there were 15,587,041 shares of Washington Banking common stock entitled to vote at the Washington Banking special meeting. As of the record date, the directors and executive officers of Washington Banking and their affiliates beneficially owned and were entitled to vote 305,846 shares of Washington Banking common stock representing approximately 2% of the shares of Washington Banking common stock outstanding on that date, which shares are subject to the voting and support agreements described below.

Concurrent with the execution of the merger agreement, each of Washington Banking's directors and executive officers entered into a voting and support agreement with Heritage under which he or she generally has agreed (1) to vote or cause to be voted in favor of the Washington Banking merger proposal and any other matter required to be approved by the shareholders of Washington Banking to facilitate the transactions contemplated by the merger agreement, all shares of Washington Banking common stock over which he or she or a member of his or her immediate family has, directly or indirectly, sole or shared voting power as of the record date for the Washington Banking special meeting and (2) subject to limited exceptions, not to sell or otherwise dispose of shares of Washington Banking common stock he or she beneficially owned as of the date of such voting and support agreement until after the approval of the Washington Banking merger proposal by the shareholders of Washington Banking. For additional information regarding the voting and support agreements, see The Merger Agreement Voting and Support Agreements on page 103.

To approve the Washington Banking merger proposal, at least two-thirds of the shares of Washington Banking common stock outstanding and entitled to vote thereon must be voted in favor of such proposal. The Washington Banking adjournment proposal and the Washington Banking compensation proposal will each be approved if a majority of the of the votes cast at the Washington Banking special meeting are voted in favor of such proposal. If you mark ABSTAIN on your proxy, fail to submit a proxy or fail to vote in person at the Washington Banking special meeting or fail to instruct your bank or broker how to vote with respect to the Washington Banking merger proposal, it will have the same effect as a vote AGAINST the proposal. If you mark ABSTAIN on your proxy, fail to submit a proxy or fail to vote in person at the Washington Banking special meeting or fail to instruct your bank or broker how

to vote with respect to the Washington Banking adjournment proposal or the Washington Banking compensation proposal, it will have no effect on such proposal.

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**Washington Banking s Board of Directors Unanimously Recommends that Washington Banking Shareholders Vote FOR the Approval of the Washington Banking Merger Proposal and the Other Proposals Presented at the Washington Banking Special Meeting (page 40)**

After careful consideration, Washington Banking s board of directors has determined that the merger, the merger agreement and the transactions contemplated by the merger agreement are advisable and in the best interests of Washington Banking and its shareholders and has unanimously approved the merger agreement. Washington Banking s board of directors unanimously recommends that Washington Banking shareholders vote FOR the approval of the Washington Banking merger proposal and FOR the other proposals presented at the Washington Banking special meeting. For the factors considered by Washington Banking s board of directors in reaching its decision to approve the merger agreement, see The Merger Washington Banking s Reasons for the Merger; Recommendation of Washington Banking s Board of Directors on page 55.

**Opinion of Heritage s Financial Advisor (page 59 and Appendix B)**

In connection with its consideration of the merger, the Heritage board of directors received advice and financial presentation from D.A. Davidson & Co. (which we refer to as Davidson ), its oral opinion, which opinion was confirmed by delivery of a written opinion, dated October 23, 2013, to the effect that, as of such date and based upon and subject to the various factors, assumptions and limitations set forth in its opinion, the merger consideration payable to holders of Washington Banking common stock was fair, from a financial point of view, to Heritage. The full text of Davidson s written opinion is attached as **Appendix B** to this joint proxy statement/prospectus. You should read the entire opinion for a discussion of, among other things, the assumptions made, procedures followed, matters considered and limitations on the review undertaken by Davidson in rendering its opinion. **Davidson s written opinion is addressed to the Heritage board of directors, is directed only to the merger consideration and does not constitute a recommendation to any Heritage shareholder as to how such shareholder should vote with respect to the merger or any other matter.**

**Opinion of Washington Banking s Financial Advisor (page 69 and Appendix C)**

In connection with its consideration of the merger, on October 23, 2013, the Washington Banking board of directors received financial advice and presentations regarding the financial aspects of the merger from Sandler O Neill & Partners, L.P. (which we refer to as Sandler ), and on October 23, 2013, received Sandler s oral opinion, which opinion was confirmed by delivery of a written opinion, dated October 23, 2013, to the effect that, as of such date and based upon and subject to the various factors, assumptions and limitations set forth in its opinion, the merger consideration was fair, from a financial point of view, to the holders of Washington Banking common stock. The full text of Sandler s written opinion is attached as **Appendix C** to this joint proxy statement/ prospectus. You should read the entire opinion for a discussion of, among other things, the assumptions made, procedures followed, matters considered and limitations on the review undertaken by Sandler in rendering its opinion. **Sandler s written opinion is addressed to the Washington Banking board of directors, is directed only to the merger consideration and does not constitute a recommendation to any Washington Banking shareholder as to how such shareholder should vote with respect to the merger or any other matter.**

**What Holders of Washington Banking Stock Options and Restricted Stock Unit Awards Will Receive (page 89)**

*Stock Options.* Each stock option granted by Washington Banking to purchase shares of Washington Banking common stock will automatically be converted into an option to purchase, on the same terms and conditions as were applicable prior to the merger, an option to acquire shares of Heritage common stock. The number of whole shares of Heritage common stock subject to the converted option will be equal to the number of shares of Washington Banking

common stock subject to such Washington Banking option immediately prior to

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the merger multiplied by a fraction having a numerator equal to the sum of (i) \$2.75 plus (ii) the product of 0.89000 multiplied by the average Heritage common stock price, and a denominator equal to the average Heritage common stock price (we refer to this fraction as the option exchange ratio), rounded down to the nearest whole share. The converted option will have an exercise price per share of Heritage common stock equal to the exercise price for each option immediately prior to the merger divided by the option exchange ratio, rounded up to the nearest penny. All outstanding options granted by Washington Banking are fully vested.

For example, assume that an individual holds an option to purchase 100 shares of Washington Banking common stock at an exercise price per share of \$10.00 immediately prior to the merger, and with an expiration date of December 31, 2019. Assume further that the average closing price of a share of Heritage common stock over the 10 trading days immediately prior to the merger is \$20.00. The option exchange ratio in this example would be 1.0275  $((\$2.75 + (0.89000 \times \$20.00)) / \$20.00)$ . As a result, the option will be converted into an option to purchase 102 shares of Heritage common stock (100 x 1.0275, rounded down to the nearest whole share) with an exercise price per share of \$9.74  $(\$10.00 / 1.0275, \text{rounded up to the nearest penny})$  at the time of the merger, and with an expiration date of December 31, 2019. Section 409A of the Internal Revenue Code generally requires that the number of shares covered by the option be rounded down to the next whole share and the exercise price be rounded up to the next whole penny.

*Restricted Stock Unit Awards.* Each restricted stock unit award in respect of a share of Washington Banking common stock will fully vest at the effective time of the merger and will be converted automatically into a restricted stock unit award in respect of shares of Heritage common stock. The number of shares of Heritage common stock subject to the converted restricted stock unit will be equal to the product of the number of shares of Washington Banking common stock subject to the Washington Banking restricted stock unit award and the option exchange ratio, rounded to the nearest whole share. Such converted restricted stock unit award will continue to be subject to the same terms and conditions as were applicable to the restricted stock unit award under the Washington Banking Stock Plan and the applicable award agreement thereunder.

For example, assume that an individual holds a restricted stock unit award that entitles him to receive 100 shares of Washington Banking common stock upon vesting on December 31, 2014. Assume further that the average closing price of a share of Heritage common stock over the 10 trading days immediately prior to the merger is \$20.00. The option exchange ratio in this example would be 1.0275  $((\$2.75 + (0.89000 \times \$20.00)) / \$20.00)$ . As such, the restricted stock unit award will be converted into the right to receive 103 fully vested shares of Heritage common stock (100 x 1.0275, rounded to the nearest whole share) at the time of the merger. Standard rounding conventions are used for conversion of the restricted stock units.

**Material U.S. Federal Income Tax Consequences of the Merger (page 116)**

The merger is intended to qualify as a reorganization within the meaning of Section 368(a) of the Code. Assuming the merger qualifies as a reorganization, a U.S. holder of Washington Banking common stock generally will not recognize any gain or loss upon receipt of Heritage common stock in exchange for Washington Banking common stock in the merger, and will recognize gain (but not loss) in an amount not to exceed any cash received as part of the merger consideration (except with respect to any cash received upon exercise of dissenters' rights under Washington law and in lieu of a fractional share of Heritage common stock, as discussed under Material U.S. Federal Income Tax Consequences of the Merger Receipt of Only Cash Consideration Upon Exercise of Dissenters' Rights and Cash Received Instead of a Fractional Share of Heritage Common Stock) on page 118. It is a condition to the completion of the merger that Heritage and Washington Banking receive written opinions from their respective counsel to the effect that the merger will qualify as a reorganization within the meaning of Section 368(a) of the Code.

For further information, see Material U.S. Federal Income Tax Consequences of the Merger on page 116.



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*The U.S. federal income tax consequences described above may not apply to all holders of Washington Banking common stock. Your tax consequences will depend on your individual situation. Accordingly, we strongly urge you to consult your independent tax advisor for a full understanding of the particular tax consequences of the merger to you.*

**Holders of Washington Banking Common Stock Have Dissenters' Rights in Connection with the Merger (see page 86)**

Under Washington law, Washington Banking shareholders have the right to dissent from the merger and receive cash equal to the fair value of their Washington Banking shares instead of receiving a combination of cash and Heritage common stock. To exercise dissenters' rights, you must strictly follow the procedures established by the Washington Business Corporation Act, RCW Chapter 23B.13, including the delivery to Washington Banking before Washington Banking shareholders vote on the merger proposal at the special meeting of written notice of your intent to demand payment for your shares of Washington Banking common stock if the merger is effected, and you must vote against, or abstain from voting on, the merger proposal. Please read *The Merger* Washington Banking Shareholder Dissenters' Rights on page 86 and **Appendix D** to this joint proxy statement/prospectus for additional information.

Heritage shareholders are not entitled to dissenters' rights in connection with the merger.

**Washington Banking's Executive Officers and Directors Have Financial Interests in the Merger that Differ from Your Interests (page 79)**

Washington Banking shareholders should be aware that some of Washington Banking's directors and executive officers have interests in the merger and have arrangements that are different from, or in addition to, those of Washington Banking shareholders generally. Washington Banking's board of directors was aware of these interests and considered these interests, among other matters, when making its decision to approve the merger agreement, and in recommending that Washington Banking shareholders vote in favor of approving the merger agreement.

These interests include the following:

The six executive officers of Washington Banking may be eligible for severance benefits under existing agreements with, and benefit plans offered by, Washington Banking in an aggregate maximum possible amount of \$2.74 million. The six executive officers of Washington Banking include Mr. John L. Wagner, Mr. Richard A. Shields, Mr. Bryan McDonald, Mr. George W. Bowen, Mr. Edward Eng and Mr. Daniel Kuenzi who will each receive severance benefits of \$137,189, \$544,690, \$577,189, \$475,383, \$468,619 and \$534,150, respectively.

Accelerated vesting of all of the unvested restricted stock unit awards held by Washington Banking directors and executive officers, representing a total of 65,766 shares of common stock.

Bryan McDonald, President and Chief Executive Officer of Whidbey Island Bank, will become Executive Vice President and Chief Lending Officer of Heritage Bank following the bank merger and has entered into an employment agreement with Heritage Bank, to become effective at the effective time of the merger. His employment agreement with Heritage Bank provides for no increase in base salary and, among other benefits, a one-time restricted stock grant with a grant date fair value of \$50,000 and a special bonus of

\$250,000 to be paid in equal installments over 24 months commencing following the effective time of the merger (which payments cease upon termination of Mr. McDonald's employment for any reason).

Edward Eng, Executive Vice President and Chief Administrative Officer of Whidbey Island Bank, will become Executive Vice President and Chief Administrative Officer of Heritage Bank following the

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bank merger and has entered into an employment agreement with Heritage Bank, to become effective at the effective time of the merger. His employment agreement with Heritage Bank provides for no increase in base salary and, among other benefits, a one-time restricted stock grant with a grant date fair value of \$75,000 payable as of the 14-month anniversary of the effective time of the merger, provided he has been continuously employed with Heritage.

John L. Wagner, President and Chief Executive Officer of Washington Banking, will serve as a special advisor to Heritage following the merger and has entered into a consulting agreement with Heritage, to become effective at the effective time of the merger.

Seven current Washington Banking directors, including Anthony B. Pickering, who will serve as chairman of the board of the combined company upon completion of the merger, and Rhoda L. Altom, Mark D. Crawford, Deborah J. Gavin, Jay T. Lien, Gragg E. Miller and Robert T. Severns will be appointed to the board of directors of the combined company.

For a more complete description of these interests, see "The Merger - Interests of Washington Banking's Directors and Executive Officers in the Merger" on page 79.

## **Amendment to Heritage's Bylaws**

At or prior to the closing of the merger, the Bylaws of Heritage will be amended, which we refer to as the "bylaw amendment", to provide for the addition of new provisions addressing certain governance matters in connection with the merger. The bylaw amendment will apply for two years after the completion of the merger and has the following terms:

the combined company's board of directors will be comprised of eight members from Heritage and seven from Washington Banking;

procedures for the appointment of replacement directors by the continuing directors of each company;

reduction in the size of the board in a manner that the proportion of directors from each company remains approximately the same;

Anthony B. Pickering of Washington Banking will serve as chairman of the board of directors and Brian S. Charneski of Heritage will serve as the vice chairman of the board of directors; and

during the two year period these bylaw provisions are in effect they may only be amended by a vote of two thirds of the directors and a majority of the continuing directors from Heritage and the continuing directors from Washington Banking, respectively.

## **Regulatory Approvals**

Under applicable law, the merger must be approved by the Federal Reserve Board, and the bank merger must be approved by the FDIC and the DFI. The U.S. Department of Justice may review the impact of the merger and the bank merger on competition.

We have filed all of the required applications, including requesting a waiver from the Federal Reserve Board of its application requirements that would apply to this merger. We received approval for the bank merger from the FDIC and the DFI, on December 23, 2013 and January 3, 2014, respectively. On January 31, 2014, we received a waiver from the Federal Reserve Board of its application requirements that would apply to this merger. There 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 Merger Agreement* *Conditions to Complete the Merger* on page 100.

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**Conditions that Must be Satisfied or Waived for the Merger to Occur (page 100)**

As more fully described in this joint proxy statement/prospectus and in the merger agreement, the completion of the merger depends on a number of conditions being satisfied or, where legally permitted, waived. These conditions include:

the approval of the Heritage merger proposal by Heritage shareholders and approval of the Washington Banking merger proposal by Washington Banking shareholders;

the authorization for listing on NASDAQ of the shares of Heritage common stock to be issued in the merger;

the receipt of all required regulatory approvals;

the effectiveness of the registration statement on Form S-4 of which this joint proxy statement/prospectus is a part;

the absence of any stop order, injunction or other legal restraint preventing the completion of the merger or the bank merger;

subject to the materiality standards provided in the merger agreement, the accuracy of the representations and warranties of Heritage and Washington Banking;

performance in all material respects by each of Heritage and Washington Banking of its obligations under the merger agreement;

receipt by each of Heritage and Washington Banking of an opinion from its counsel as to certain U.S. federal income tax matters;

receipt by each of Heritage and Washington Banking of a written consent from the FDIC ensuring continuation of loss coverage without adverse change under shared-loss agreements with the FDIC and no other event has occurred that has resulted in, or is likely to result in, the loss of a material amount of loss coverage from the FDIC;

the adoption by Heritage of a bylaw amendment to provide for certain corporate governance provisions, including the composition of the board of directors of the combined company, as provided in Exhibit D to the merger agreement attached as Appendix A to this joint proxy statement/prospectus; and

as an additional condition to Heritage's obligation to complete the merger, the shares of Washington Banking common stock whose holders have perfected dissenters' rights under Washington law shall be less than ten percent of the total number of outstanding shares of Washington Banking common stock.

We expect to complete the merger in the first half of 2014. No assurance can be given, however, as to when, or if, the conditions to the merger will be satisfied or waived, or that the merger will be completed.

#### **Termination of the Merger Agreement (page 101)**

The merger agreement can be terminated at any time prior to completion of the merger in the following circumstances:

by mutual written consent of Heritage and Washington Banking;

by either Heritage or Washington Banking if any governmental entity that must grant a requisite regulatory approval has denied approval of the merger or bank merger and such denial has become final and non-appealable or any governmental entity of competent jurisdiction has issued a final non-appealable order, injunction or decree permanently enjoining or otherwise prohibiting or making illegal the consummation of the transactions contemplated by the merger agreement, unless the failure to obtain a requisite regulatory approval is due to the failure of the party seeking to terminate the merger agreement to perform or observe its covenants and agreements under the merger agreement;

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by either Heritage or Washington Banking if the merger has not been completed on or before May 31, 2014 (which we refer to as the termination date), unless the failure of the merger to be completed by that date is due to the failure of the party seeking to terminate the merger agreement to perform or observe its covenants and agreements under the merger agreement;

by either Heritage or Washington Banking (provided that the terminating party is not then in material breach of any representation, warranty, covenant or other agreement contained in the merger agreement) if there is a breach of any of the covenants or agreements or any of the representations or warranties set forth in the merger agreement on the part of the other party which either individually or in the aggregate would constitute, if occurring or continuing on the date the merger is completed, the failure of a closing condition of the terminating party and which is not cured within 30 days following written notice to the party committing such breach, or by its nature or timing cannot be cured during such period (or such fewer days as remain prior to the termination date);

by either Heritage or Washington Banking, if (1) the board of directors of the other party fails to recommend in this joint proxy statement/prospectus that its shareholders approve the merger proposal, or withdraws, modifies or qualifies such recommendation in an adverse manner, or resolves to do so, or fails to reaffirm such recommendation within five days after being requested in writing to do so, or fails to recommend against the acceptance of a publicly announced tender offer or exchange offer for its common stock within ten days after the commencement of such offer; or (2) the board of directors of the other party recommends or endorses an acquisition proposal or fails to announce its opposition to an acquisition proposal with ten days after the public announcement of such offer; or (3) the other party materially breaches certain obligations, including with respect to the non-solicitation of acquisition proposals or calling and holding of its meeting of shareholders to vote on its merger proposal; or

by either Heritage or Washington Banking, if either party does not obtain the requisite shareholder vote for approval of the merger proposal, provided that the party terminating the merger agreement shall not have breached in any material respect certain obligations, including with respect to the non-solicitation of acquisition proposals or calling and holding of its meeting of shareholders and recommending that they approve its merger proposal. An acquisition proposal means any offer, proposal or inquiry relating to, or any third-party indication of interest in, (i) any acquisition or purchase, direct or indirect, of more than 25% of the consolidated assets of a party and its subsidiaries or 25% or more of any class of equity or voting securities of a party or its subsidiaries whose assets, individually or in the aggregate, constitute more than a specified percentage of the consolidated assets of the party, (ii) any tender offer (including a self-tender offer) or exchange offer that, if consummated, would result in such third-party beneficially owning 25% or more of any class of equity or voting securities of a party or its subsidiaries whose assets, individually or in the aggregate, constitute more than 25% of the consolidated assets of the party, or (iii) a merger, consolidation, share exchange, business combination, reorganization, recapitalization, liquidation, dissolution or other similar transaction involving a party or its subsidiaries whose assets, individually or in the aggregate, constitute more than 25% of the consolidated assets of the party.

**Termination Fee (page 102)**

If the merger agreement is terminated under certain circumstances, including circumstances involving an acquisition proposal with respect to a party or a change in recommendation by the board of directors of a party, such party may be required to pay to the other party a termination fee equal to \$7.9 million. The percentage referenced in the definition

of acquisition proposal above increases from 25% to 50% for the purpose of determining payment of a termination fee by either party. These termination fees could discourage other companies from seeking to acquire or merge with Washington Banking or Heritage.

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### **The Rights of Washington Banking Shareholders Will Change as a Result of the Merger (page 127)**

The rights of Washington Banking shareholders will change as a result of the merger due to differences in Heritage's and Washington Banking's governing documents. The rights of Washington Banking shareholders and Heritage's shareholders are governed by Washington law and by Washington Banking's and Heritage's respective articles of incorporation and bylaws, each as amended to date. Upon the completion of the merger, Washington Banking shareholders will become shareholders of Heritage, as the continuing legal entity in the merger, and the rights of Washington Banking shareholders will therefore be governed by Washington law and by Heritage's articles of incorporation and bylaws.

For example, Heritage's articles of incorporation authorize 50,000,000 shares of common stock and 2,500,000 shares of preferred stock, and the Heritage board has authority, without shareholder approval, to determine the terms of any preferred stock. Washington Banking's articles of incorporation authorize 35,000,000 shares of common stock and 26,380 shares of preferred stock, but the Washington Banking board does not have authority, without shareholder approval, to determine the terms of any preferred stock. Also, Heritage's articles of incorporation also provide for restrictions on voting rights of shares owned in excess of 10% of any class of Heritage equity security; Washington Banking's articles of incorporation provide for no such restriction on voting rights. See *Comparison of Shareholder Rights* on page 127 for a description of the material differences in shareholder rights under each of the Heritage and Washington Banking governing documents.

### **Heritage's Board of Directors Following the Merger**

Upon completion of the merger, the board of directors of Heritage, as the surviving corporation, will be comprised of 15 directors with eight directors from Heritage and seven directors from Washington Banking. The eight directors from Heritage shall include Brian S. Charneski, who will serve as vice-chairman of the board, David H. Brown, Gary B. Christensen, John A. Clees, Kimberly T. Ellwanger, Jeffrey S. Lyon, Brian L. Vance and Ann Watson. The seven directors from Washington Banking shall include: Anthony B. Pickering, who will serve as chairman of the board, Rhoda L. Altom, Mark D. Crawford, Deborah J. Gavin, Jay T. Lien, Gragg E. Miller and Robert T. Severns.

### **Information About the Companies (page 120)**

#### *Heritage Financial Corporation*

Heritage, headquartered in Olympia, Washington, is a bank holding company for Heritage Bank through which it operates 36 banking offices located primarily in western Washington and the Portland, Oregon area. Through Heritage Bank, Heritage offers a broad range of financial services primarily to small businesses and their owners and attracts deposits from the general public. Heritage Bank also makes real estate construction and land development loans and consumer loans and originates first mortgage loans on residential properties located in western and central Washington State and the greater Portland, Oregon area. Heritage's primary lines of business include commercial banking, retail banking and wealth management. As of September 30, 2013, on a consolidated basis, Heritage had total assets of \$1.67 billion, deposits of \$1.43 billion, and shareholders' equity of \$216.6 million.

Heritage's principal office is located at 201 Fifth Avenue SW, Olympia, Washington 98501, and its telephone number is (360) 943-1500. Heritage's common stock is listed on NASDAQ under the symbol HFWA.

Additional information about Heritage and its subsidiaries is included in documents incorporated by reference in this joint proxy statement/prospectus. See *Where You Can Find More Information* on page 132.



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### *Washington Banking Company*

Washington Banking, headquartered in Oak Harbor, Washington, is a bank holding company for Whidbey Island Bank through which it operates 31 banking offices throughout Northwestern Washington. The business of Whidbey Island Bank consists primarily of attracting deposits from the general public and originating loans. In addition to conducting a full-service, community, commercial banking business, Whidbey Island Bank also offers nondeposit managed investment products and services, which are not FDIC insured. These programs are provided through an unrelated investment advisory company, Elliott Cove Capital Management LLC. At September 30, 2013, on a consolidated basis, Washington Banking had assets of \$1.65 billion, deposits of \$1.43 billion and shareholders' equity of \$181.8 million.

Washington Banking's principal office is located at 450 SW Bayshore Drive, Oak Harbor, Washington 98277, and its telephone number is (360) 240-6458. Washington Banking's common stock is listed on NASDAQ under the symbol WBCO.

Additional information about Washington Banking and its subsidiaries is included in documents incorporated by reference in this joint proxy statement/prospectus. See "Where You Can Find More Information" on page 132.

### **Litigation Relating to the Merger (page 88)**

Washington Banking, its directors and Heritage are named as defendants in two lawsuits pending in the Superior Court for the State of Washington in King County, Washington, which have been consolidated under the caption *In Re Washington Banking Company Shareholder Litigation*, Lead Case No. 13-2-38689-5 SEA. The consolidated litigation generally alleges that Washington Banking's directors breached their fiduciary duties to Washington Banking and its shareholders by agreeing to the proposed merger at an unfair price and without an adequate sales process, because they have interests in the merger different from shareholders and by agreeing to deal protection provisions in the merger agreement that are alleged to prevent bids by third parties. The consolidated litigation also alleges that the disclosures in connection with the merger are misleading in various respects. Heritage is alleged to have aided and abetted the directors' alleged breaches of their fiduciary duties. The consolidated litigation 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.

Washington Banking and Heritage believe the consolidated litigation is without merit and they each intend to vigorously defend against the suits. See "The Merger Litigation Relating to the Merger" on page 88.

### **Risk Factors (page 28)**

You should consider all the information contained in or incorporated by reference into this joint proxy statement/prospectus in deciding how to vote for the proposals presented in the joint proxy statement/prospectus. In particular, you should consider the factors under "Risk Factors" on page 28.

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**Selected Historical And Pro Forma Financial Information**

**Selected Historical Financial Data of Heritage and Washington Banking**

The following tables set forth selected historical financial and other data of Heritage and Washington Banking for the periods and at the dates indicated. The information at December 31, 2012 and 2011 and for the years ended December 31, 2012, 2011 and 2010 is derived in part from and should be read together with the audited consolidated financial statements and notes thereto of Heritage and Washington Banking incorporated by reference in this joint proxy statement/prospectus from their Annual Reports on Form 10-K for the year ended December 31, 2012. The information as of December 31, 2010, 2009 and 2008 and for the years ended December 31, 2009 and 2008 is derived in part from audited consolidated financial statements and notes thereto of Heritage and Washington Banking that are not incorporated by reference in this joint proxy statement/prospectus. The information at and for the nine months ended September 30, 2013 and 2012 is derived in part from and should be read together with Heritage's and Washington Banking's unaudited consolidated financial statements and notes thereto incorporated by reference in this document from their Quarterly Reports on Form 10-Q for the quarters ended September 30, 2013 and 2012. In the opinion of management of each of Heritage and Washington Banking, all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of the results of operations of the respective companies for the unaudited periods have been made. The selected data presented below for the nine months ended September 30, 2013 are not necessarily indicative of the results that may be expected for future periods.

Certain of the selected financial data of Washington Banking in the tables below contain information determined by methods other than in accordance with accounting principles generally accepted in the United States of America (referred to as "GAAP"). This information consists of tangible book value per common share, the efficiency ratio on a fully tax equivalent basis and net interest margin on a fully tax equivalent basis. Washington Banking management believes that it is standard practice in the banking industry to present these values as stated herein, and accordingly believes that providing these measures may be useful for peer comparison purposes. These disclosures should not be viewed as substitutes for the results determined to be in accordance with GAAP, nor are they necessarily comparable to non-GAAP performance measures that may be presented by other companies. See "Reconciliation of Non-GAAP Historical Financial Data of Washington Banking" on page 25 for reconciliations of non-GAAP measures to GAAP measures immediately following Washington Banking's selected financial data table.

**Table of Contents****Selected Historical Financial Data of Heritage**

	As of or for the Nine Months Ended September 30,		As of or for the Year Ended December 31,				2008
	2013	2012	2012	2011	2010	2009	
(Dollars in thousands, except per share data)							
<b>Operations Data:</b>							
Interest income	\$ 52,876	\$ 52,409	\$ 69,109	\$ 74,120	\$ 59,522	\$ 53,341	\$ 56,948
Interest expense	2,818	3,550	4,534	6,582	8,511	11,645	18,606
Net interest income	50,058	48,859	64,575	67,538	51,011	41,696	38,342
Provision for loan losses	3,244	1,317	2,016	14,430	11,990	19,390	7,420
Noninterest income	7,222	5,499	7,272	5,746	18,779	5,988	6,358
Noninterest expense	41,010	37,971	50,392	49,703	38,011	28,216	27,953
Income tax expense (benefit)	4,161	4,843	6,178	2,633	6,435	(503)	2,976
Net income	8,865	10,227	13,261	6,518	13,354	581	6,351
Net income (loss) available to common shareholders	8,865	10,227	13,261	6,518	11,668	(739)	6,208
<b>Common Share Data:</b>							
Earnings (loss) per common share(1)							
Basic	\$ 0.57	\$ 0.67	\$ 0.87	\$ 0.42	\$ 1.05	\$ (0.10)	\$ 0.93
Diluted	0.57	0.67	0.87	0.42	1.04	(0.10)	0.93
Dividend payout ratio to common shareholders(2)	59.6%	62.7%	92.0%	90.5%	%	(100.0)%	60.2%
Cash dividends per common share	\$ 0.34	\$ 0.42	\$ 0.80	\$ 0.38	\$	\$ 0.10	\$ 0.56
<b>Selected Performance Ratios:</b>							
	4.77%	5.09%	5.03%	5.23%	4.56%	4.25%	4.11%

Net interest spread(3)(4)							
Net interest margin(3)(5)	4.88	5.23	5.17	5.41	4.78	4.57	4.59
Efficiency ratio(6)	71.60	69.85	70.14	67.82	54.46	59.17	62.53
Return on average assets(3)	0.79	1.01	0.98	0.48	1.16	0.06	0.71
Return on average common equity(3)	5.74	6.70	6.52	3.17	8.15	(0.72)	6.98
<b>Balance Sheet</b>							
<b>Data:</b>							
Total assets	\$ 1,674,417	\$ 1,366,582	\$ 1,345,540	\$ 1,368,985	\$ 1,367,684	\$ 1,014,859	\$ 946,145
Originated loans receivable, net	944,535	851,426	855,360	815,607	719,957	746,083	793,303
Purchased covered loans receivable, net	63,484	89,005	83,978	105,394	128,715		
Purchased noncovered loans receivable, net	200,063	65,592	59,006	83,479	131,049		
Loans receivable, net	1,208,082	1,006,023	998,344	1,004,480	979,721	746,083	793,303
Loans held for sale		1,411	1,676	1,828	764	825	304
FDIC indemnification asset	4,413	7,480	7,100	10,350	16,071		
Deposits	1,425,985	1,133,700	1,117,971	1,136,044	1,136,276	840,128	824,480
Securities sold under agreement to repurchase	22,655	22,889	16,021	23,091	19,027	10,440	
Shareholders equity	216,595	202,244	198,938	202,520	202,279	158,498	113,147
Book value per common share	13.36	13.34	13.16	13.10	12.99	12.21	13.40
Equity to assets ratio	12.9%	14.8%	14.8%	14.8%	14.8%	15.6%	12.0%

(1) Effective January 1, 2009, Heritage adopted FASB ASC 03-6-1. Earnings per share data for the prior periods have been revised to reflect the retrospective adoption of this standard.

(2) Dividend payout ratio is declared dividends per common share divided by basic earnings (loss) per common share.

(3) Ratios for the nine months ended September 30, 2013 and 2012 are annualized.

(4)

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

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

(6) The efficiency ratio is noninterest expense divided by the sum of net interest income and noninterest income.

**Table of Contents****Selected Historical Financial Data of Heritage (continued)**

	As of or for the Nine Months Ended September 30,		As of or for the Year Ended December 31,				
	2013	2012	2012	2011	2010	2009	2008(1)
(Dollars in thousands)							
<b>Capital Ratios:</b>							
Capital risk-based capital ratio	16.7%	20.4%	19.9%	20.3%	21.5%	20.7%	13.7%
Tier 1 risk-based capital ratio	15.5	19.1	18.7	19.0	20.2	19.4	12.5
Debt to capitalization ratio	11.6	14.0	13.6	13.8	13.9	14.6	11.0
<b>Asset Quality Ratios:</b>							
Nonperforming originated loans to total originated loans(7)	0.81%	1.57%	1.28%	2.57%	3.14%	4.21%	0.42%
Provision for loan losses on originated loans to total originated loans(7)	1.80	2.35	2.19	2.66	2.97	3.38	1.91
Provision for loan losses on originated loans to nonperforming originated loans(7)	221.68	149.94	170.44	103.52	94.73	79.34	454.02
Provision for loan losses on originated assets to total originated assets(7)	0.83	1.72	1.39	2.14	2.38	3.32	0.57
<b>Other Data:</b>							
Number of banking offices	42	33	33	33	31	20	20
Number of full-time equivalent employees	415	368	363	354	321	222	217

- (7) Nonperforming originated loan balances exclude portions guaranteed by governmental agencies of \$1.9 million and \$2.0 million as of September 30, 2013 and 2012, respectively, and \$1.2 million, \$1.8 million, \$3.2 million and \$2.3 million as of December 31, 2012, 2011, 2010 and 2009, respectively. There were no governmental guarantees on nonperforming originated loans as of December 31, 2008.

**Table of Contents****Selected Historical Financial Data of Washington Banking**

	As of or for the Nine Months Ended September 30,		As of or for the Year Ended December 31,				
	2013	2012	2012	2011	2010	2009	2008
(Dollars in thousands, except per share data)							
<b>Operations data:</b>							
Interest income	\$ 56,805	\$ 68,271	\$ 89,710	\$ 89,707	\$ 75,949	\$ 54,392	\$ 58,782
Interest expense	4,119	5,528	7,113	9,981	11,830	14,019	20,834
Net interest income	52,686	62,743	82,597	79,726	64,119	40,373	37,948
Provision for loan losses	14,239	5,998	9,744	10,050	13,486	10,200	5,050
Noninterest income	19,180	3,643	8,246	9,212	33,531	7,661	6,886
Noninterest expense	39,865	42,427	56,399	55,825	46,797	28,734	27,523
Income tax expense	5,768	5,703	7,856	7,111	11,797	2,886	3,929
Net income before preferred dividends	11,994	12,258	16,844	15,952	25,570	6,214	8,332
Preferred dividends				1,084	1,659	1,600	
Net income available to common shareholders	11,994	12,258	16,844	14,868	23,911	4,614	8,332
<b>Common per share data:</b>							
Earnings per common share							
Basic	\$ 0.77	\$ 0.80	\$ 1.09	\$ 0.97	\$ 1.56	\$ 0.46	\$ 0.88
Diluted	0.77	0.79	1.09	0.97	1.55	0.46	0.88
Dividend payout ratio to common shareholders(1)							
	50.41%	44.04%	45.81%	20.63%	8.64%	37.23%	29.01%
Cash dividends per common share	\$ 0.39	\$ 0.35	\$ 0.50	\$ 0.20	\$ 0.14	\$ 0.18	\$ 0.26
<b>Selected performance ratios:</b>							
Net interest spread(2)(3)	4.61%	5.55%	5.45%	5.39%	4.76%	4.28%	4.18%
Net interest margin (fully tax-equivalent)(2)(4)(6)							
	4.71	5.65	5.54	5.47	4.90	4.63	4.60
Efficiency ratio (fully tax-equivalent)(5)(6)							
	54.98	63.11	61.31	62.06	47.48	59.01	60.63
Return on average assets(2)							
	0.97	0.98	1.01	0.95	1.72	0.66	0.94
Return on average common equity(2)							
	8.84	9.38	9.56	9.17	16.87	7.11	10.82

**Balance sheet data:**

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Total assets	\$ 1,648,154	\$ 1,680,126	\$ 1,687,677	\$ 1,670,682	\$ 1,704,939	\$ 1,045,871	\$ 899,631
Non-covered loans	872,636	824,610	853,134	812,830	834,293	813,852	823,068
Covered loans	171,416	232,524	217,339	269,081	366,153		
Allowance for loan losses, non-covered loans	16,942	16,570	17,147	18,032	18,812	16,212	12,250
Allowance for loan losses, covered loans	15,026	1,007	3,252	870	1,336		
Non-covered OREO	4,747	4,080	3,023	1,976	4,122	4,549	2,226
Covered OREO	4,109	18,811	13,460	26,622	29,766		
Deposits	1,429,279	1,458,230	1,462,973	1,466,344	1,492,220	846,671	747,159
Overnight borrowings							11,640
Other borrowed funds						10,000	30,000
Junior subordinated debentures	25,774	25,774	25,774	25,774	25,774	25,774	25,774
Preferred securities					25,334	24,995	
Shareholders equity	181,798	180,967	182,624	170,820	182,098	159,521	80,560
Tangible book value per common share(7)	11.34	11.31	11.41	10.67	9.76	8.79	8.47
Average equity to average assets	11.01%	10.45%	10.54%	9.64%	11.26%	11.86%	8.65%

- (1) Dividend payout ratio is total dividends paid on common stock divided by net income available to common shareholders.
- (2) Ratios for the nine months ended September 30, 2013 and 2012 are annualized.
- (3) Net interest spread is the difference between the average yield on interest earning assets and the average cost of interest bearing liabilities.
- (4) Net interest margin is net interest income divided by average interest earning assets.
- (5) The efficiency ratio is noninterest expense divided by the sum of net interest income and noninterest income.
- (6) A non-GAAP performance measure. The calculation involves grossing up the interest income on tax-exempt loans and investments by an amount that makes it comparable to taxable income. See Reconciliation of Non-GAAP Historical Financial Data of Washington Banking on page 25 for reconciliations of non-GAAP measures to GAAP measures immediately following Washington Banking's selected financial data table.
- (7) Tangible book value is a non-GAAP performance measure. See Reconciliation of Non-GAAP Historical Financial Data of Washington Banking on page 25 for reconciliations of non-GAAP measures to GAAP measures immediately following Washington Banking's selected financial data table.

**Table of Contents****Selected Historical Financial Data of Washington Banking (continued)**

	As of or for the Nine Months Ended September 30,		As of or for the Year Ended December 31,				
	2013	2012	2012	2011	2010	2009	2008
(Dollars in thousands)							
<b>Capital ratios:</b>							
risk-based capital	19.82%	19.59%	19.39%	19.73%	20.96%	22.15%	13.00%
risk-based capital	18.55	18.34	18.13	18.47	19.70	20.89	11.00
coverage ratio	12.56	11.65	11.78	11.16	11.42	18.73	11.00
<b>Quality ratios:</b>							
covered nonperforming loans to total gross non-covered loans	1.14%	2.14%	1.82%	2.72%	3.10%	0.42%	0.00%
provision for loan losses to total gross non-covered loans	1.94	2.01	2.01	2.22	2.25	1.99	1.00
provision for loan losses to total non-covered nonperforming	171.00	93.92	110.26	81.59	72.79	477.53	638.00
covered nonperforming assets to total assets	0.89	1.29	1.10	1.44	1.76	0.76	0.00
loan charge-offs to average non-covered loans outstanding(2)	0.32	1.16	0.97	1.37	1.15	0.76	0.00
<b>Other data:</b>							
number of banking offices	31	30	31	30	30	18	20
number of full time equivalent employees	464	463	467	450	448	281	200

**Table of Contents****Reconciliation of Non-GAAP Historical Financial Data of Washington Banking**

	As of or for the Nine Months Ended September 30,		As of or for the Year Ended December 31,				
	2013	2012	2012	2011	2010	2009	2008
(Dollars in thousands)							
<b>Net interest margin (fully tax-equivalent):</b>							
GAAP net interest income	\$ 52,686	\$ 62,743	\$ 82,597	\$ 79,726	\$ 64,119	\$ 40,373	\$ 37,948
Tax-equivalent adjustment(1)	644	837	1,144	1,021	918	658	559
Tax-equivalent net interest income	\$ 53,330	\$ 63,580	\$ 83,741	\$ 80,747	\$ 65,037	\$ 41,031	\$ 38,507
Average interest earning assets	\$ 1,515,424	\$ 1,502,903	\$ 1,510,471	\$ 1,475,834	\$ 1,327,871	\$ 887,070	\$ 837,456
Net interest margin	4.65%	5.58%	5.47%	5.40%	4.83%	4.55%	4.53%
Net interest margin (fully tax-equivalent)	4.71	5.65	5.54	5.47	4.90	4.63	4.60
<b>Efficiency Ratio:</b>							
GAAP net interest income	\$ 52,686	\$ 62,743	\$ 82,597	\$ 79,726	\$ 64,119	\$ 40,373	\$ 37,948
Tax equivalent adjustment(1)	644	837	1,144	1,021	918	658	559
Tax equivalent net interest income	\$ 53,330	\$ 63,580	\$ 83,741	\$ 80,747	\$ 65,037	\$ 41,031	\$ 38,507
Efficiency ratio	55.47%	63.91%	62.08%	62.77%	47.92%	59.82%	61.39%
Efficiency ratio (fully tax-equivalent)	54.98	63.11	61.31				