





**Premier Commercial Bancorp  
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**Form 8937 Part II, Line 15:**

Pursuant to the terms of Agreement and Plan of Merger dated, March 8, 2018, Premier Commercial Bancorp common stock shareholders received 0.4863 shares of Heritage Financial Corporation common stock for each share of Premier Commercial Bancorp common stock.

In addition, cash in lieu of fractional Heritage Financial Corporation common shares was also paid.

The fair market value per share of Heritage Financial Corporation common stock was \$34.85 at the close of the transaction at 12:01am on July 2, 2018.

The information contained herein does not constitute tax advice and does not purport to be complete or to describe the consequences that may apply to particular categories of shareholders. Consult your tax adviser to determine the particular tax consequences to you related to the transaction.

The receipt by a Premier Commercial Bancorp stockholder of Heritage Financial Corporation common stock in exchange for Premier Commercial Bancorp common stock in the Merger has an effect on such stockholder's tax basis:

Generally, the aggregate tax basis of Heritage Financial Corporation common stock received by a Premier Commercial Bancorp stockholder that exchanges its shares of Premier Commercial Bancorp common stock for Heritage Financial Corporation common stock in the Merger will be equal to the aggregate adjusted tax basis of the shares of Premier Commercial Bancorp common stock surrendered (excluding any cash received in lieu of a fractional share of Heritage Financial Corporation common stock) and increased by the amount of any gain (excluding any gain or loss resulting from the deemed receipt and redemption of fractional shares), if any, recognized by the Premier Commercial Bancorp stockholder on the exchange.

The amount of gain recognized is the lesser of (A) the amount of gain realized (i.e., the excess of the sum of the amount of cash and the fair market value of the Heritage Financial Corporation common stock received pursuant to the Merger over the stockholder's aggregate tax basis in the shares of Premier Commercial Bancorp common stock surrendered) and (B) the amount of cash received pursuant to the Merger (excluding any cash received in lieu of a fractional share of Heritage Financial Corporation common stock).

**Form 8937 Part II, Line 16:**

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The Merger was intended to qualify as a "reorganization" within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended (the "Code"). If the Merger is respected as a "reorganization" within the meaning of Section 368(a) of the Code, shareholders generally will not recognize any gain or loss upon receipt of Heritage Financial Corporation common stock in exchange for common stock, except with respect to cash received (excluding cash in lieu).

Cash in lieu of a fractional share of Heritage Financial Corporation common stock will be treated as additional cash proceeds for any fraction of a share of Premier Commercial Bancorp common stock treated as retained, for purposes of determining gain or loss on the exchange.

The aggregate tax basis of the shares of Heritage Financial Corporation common stock received in the Merger (excluding any fractional share interest deemed received and redeemed for cash) generally will be equal to the adjusted tax basis in the shares of Premier Commercial Bancorp common stock exchanged, reduced by the amount of cash received, and increased by the amount of any gain recognized upon the exchange.

Thus, the basis of each share of Heritage Financial Corporation common stock received should be equal to such shareholders' basis in their Premier Commercial Bancorp common stock surrendered:

(1) Decreased by

- (i) the amount of any money received by such shareholders in the exchange;
- (ii) the fair market value of any other boot received by such shareholders; and
- (iii) any loss recognized by such shareholders on the exchange; and

(2) Increased by any gain recognized by such shareholders on the exchange.

As indicated above, each shareholder should consult with their own tax advisers concerning specific circumstances regarding each shareholder's individual basis. The actual tax basis will differ with respect to each separate shareholder and, additionally, tax basis may differ with respect to separate and distinct blocks of common shares owned by the shareholder.

The holding period of the shares of the Heritage Financial Corporation common stock received in the Merger generally will include the holding period of the shares of Premier Commercial Bancorp common stock exchanged.