

Report of Organizational Actions Affecting Basis of Securities

▶ See separate instructions.

Part I Reporting Issuer

1 Issuer's name		2 Issuer's employer identification number (EIN)	
Puget Sound Bancorp, Inc.		30-0877132	
3 Name of contact for additional information	4 Telephone No. of contact	5 Email address of contact	
Don Hinson	(360) 943-1500	don.hinson@heritagebanknw.com	
6 Number and street (or P.O. box if mail is not delivered to street address) of contact		7 City, town, or post office, state, and ZIP code of contact	
C/O Heritage Bank, 201 5TH AVE SW		Olympia, WA 98501	
8 Date of action		9 Classification and description	
01/16/2018		See attachment	
10 CUSIP number	11 Serial number(s)	12 Ticker symbol	13 Account number(s)
		PUGB	

Part II Organizational Action Attach additional statements if needed. See back of form for additional questions.

14 Describe the organizational action and, if applicable, the date of the action or the date against which shareholders' ownership is measured for the action ▶ _____
 See attachment _____

15 Describe the quantitative effect of the organizational action on the basis of the security in the hands of a U.S. taxpayer as an adjustment per share or as a percentage of old basis ▶ _____
 See attachment _____

16 Describe the calculation of the change in basis and the data that supports the calculation, such as the market values of securities and the valuation dates ▶ _____
 See attachment _____

Part II Organizational Action (continued)

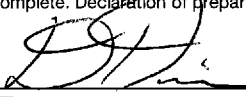
17 List the applicable Internal Revenue Code section(s) and subsection(s) upon which the tax treatment is based ▶
See attachment

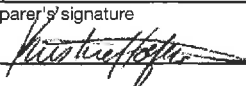
18 Can any resulting loss be recognized? ▶
See attachment

19 Provide any other information necessary to implement the adjustment, such as the reportable tax year ▶
See attachment

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than officer) is based on all information of which preparer has any knowledge.

Sign Here

Signature ▶  Date ▶ 3/1/2018
Print your name ▶ Don Hinson Title ▶ EVP / CFO

Paid Preparer Use Only	Print/Type preparer's name	Preparer's signature	Date	Check <input type="checkbox"/> if self-employed	PTIN
	Kristine Hoeflin		3/1/2018		P00786821
	Firm's name ▶ Moss Adams LLP	Firm's EIN ▶	91-0189318		
	Firm's address ▶ 2707 Colby Ave. Suite 801, Everett, WA 98201	Phone no.			

Puget Sound Bancorp, Inc.
Attachment to Form 8937
Report of Organizational Actions Affecting Basis of Securities

Form 8937 Part I, Box 9:

The securities subject to reporting include all shares of Heritage Financial Corporation (“Heritage”) common stock issued in exchange for the outstanding common stock of Puget Sound Bancorp, Inc. (“Puget Sound”) as a result of the merger of Puget Sound with and into Heritage on January 16, 2018.

Form 8937 Part II, Box 14:

On January 16, 2018, Puget Sound completed a merger with Heritage. Pursuant to the terms and conditions of the Agreement and Plan of Merger, dated as of July 26, 2017, Puget Sound merged with and into Heritage. As a result of the merger, Heritage is the surviving corporation while Puget Sound ceased to exist as a corporation.

Pursuant to the terms of Agreement and Plan of Merger, dated July 26, 2017, Puget Sound shareholders received 1.1688 shares of Heritage common stock for each share of Puget Sound stock.

Form 8937 Part II, Box 15 & 16:

The Merger was structured to qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code, as amended. The tax basis of the shares of Heritage common stock received by a Puget Sound shareholder will be the same as the basis of the shares of Puget Sound common stock surrendered in exchange for the shares of Heritage common stock, plus any gain recognized by such shareholder in the Merger, and minus any cash received by the shareholder in the Merger. Pursuant to the applicable tax provisions, gain is recognized as a result of the Merger to the extent that the fair market value of stock and cash received exceeds the basis in the shares, but gain shall not be recognized in excess of the amount of cash received. Loss is not recognized. The fair market value of Heritage common stock, based on the stock price at the time of merger, as listed on the NASDAQ, is \$31.80.

A Puget Sound shareholder who received cash in lieu of a fractional share interest in Heritage common stock will be treated as having received such cash in full payment for such fractional share of stock. Since the shareholder did not receive Heritage common stock in exchange for the fractional share interest, there will be no new basis to compute.

Form 8937 Part II, Box 17:

Heritage’s acquisition of Puget Sound, pursuant to the merger completed on January 16, 2018, was structured to qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code. In general, the income tax consequences to the shareholders are determined under Internal Revenue Code sections 302, 354, 356, 358, 368, and 1221.

Form 8937 Part II, Box 18:

In general, each Puget Sound shareholder who received Heritage common stock and cash for all of his Puget Sound stock cannot recognize any loss. A Puget Sound shareholder who received cash in lieu of a fractional share of Puget Sound common stock may recognize loss if the amount of cash received is less than the basis in the fractional share, as applicable.

Form 8937 Part II, Box 19:

In general, any adjustment to the tax basis that causes gain or loss recognized by the Puget Sound shareholder as a result of the completion of the Merger should be reported for the taxable year which includes January 16, 2018. A calendar year shareholder would report the transaction on a 2018 federal income tax return. The holding period of Heritage common stock received in exchange for shares of Puget Sound common stock will include the holding period of the Puget Sound common stock for which it is exchanged. A holder of Puget Sound common stock who received cash in lieu of a fractional share of Heritage common stock will generally be treated as having received the fractional share pursuant to the merger and then as having sold the fractional share of Heritage common stock for cash. As a result, a holder of Puget Sound common stock will generally recognize gain or loss equal to the difference between the amount of cash received and the basis in his or her fractional share interest. The gain or loss will generally be capital gain or loss, and will be long-term capital gain or loss if, as of the effective date of the merger, the holding period for such shares is greater than one year. Capital losses deductibility may be subject to limitations.

No ruling from the Internal Revenue Service (the "IRS") has been requested, or will be obtained, regarding the U.S. federal income tax consequences of the Merger described in this report. This report is not binding on the IRS and the IRS and the U.S. courts could disagree with one or more of the positions described above.

The above information does not constitute tax advice. It does not address the tax consequences that may apply to any particular shareholder, and each shareholder is urged to consult his or her own tax advisor regarding the tax consequences of the merger.