

Valley Community Bancshares, 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 Valley Community Bancshares, Inc. (“Valley”) as a result of the merger of Valley with and into Heritage on July 15, 2013.

Form 8937 Part II, Box 14:

On July 15, 2013, Valley completed a merger with Heritage. Pursuant to the terms and conditions of the Agreement and Plan of Merger, dated as of July 15, 2013, Valley merged with and into Heritage, resulting in Heritage being the surviving corporation while Valley ceased to exist as a corporation.

Form 8937 Part II, Box 15 & 16:

Valley believes that the Merger qualifies as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code. The tax basis of the shares of Heritage common stock received by a Valley shareholder will be the same as the basis of the shares of Valley 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.

A Valley 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 Valley, pursuant to the merger completed on July 15, 2013, is believed 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 354, 356, 358, and 1221.

Form 8937 Part II, Box 18:

In general, each Valley shareholder who received Heritage common stock and cash for all of his Valley stock cannot recognize any loss. A Valley shareholder who received cash in lieu of a fractional share of Valley 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 Valley shareholder as a result of the completion of the Merger should be reported for the taxable year which includes July 15, 2013. A calendar year shareholder would report the transaction on a 2013 federal income tax return.

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.