

## Report of Organizational Actions Affecting Basis of Securities

▶ See separate instructions.

### Part I Reporting Issuer

<b>1</b> Issuer's name <u>Washington Banking Company</u>		<b>2</b> Issuer's employer identification number (EIN) <u>91-1725825</u>	
<b>3</b> Name of contact for additional information <u>Don Hinson</u>	<b>4</b> Telephone No. of contact <u>(360) 943-1500</u>	<b>5</b> Email address of contact <u>don.hinson@heritagebanknw.com</u>	
<b>6</b> Number and street (or P.O. box if mail is not delivered to street address) of contact <u>C/O Heritage Bank, 201 5TH AVE SW</u>		<b>7</b> City, town, or post office, state, and Zip code of contact <u>Olympia, WA 98501</u>	
<b>8</b> Date of action <u>5/1/14</u>		<b>9</b> Classification and description <u>See attachment</u>	
<b>10</b> CUSIP number <u>937303105</u>	<b>11</b> Serial number(s)	<b>12</b> Ticker symbol <u>WBCO</u>	<b>13</b> Account number(s)

### 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  
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**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  
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**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  
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**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

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**18** Can any resulting loss be recognized? ▶ \_\_\_\_\_

See attachment


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**19** Provide any other information necessary to implement the adjustment, such as the reportable tax year ▶ \_\_\_\_\_

See attachment

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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 ▶ 5/19/2014

Print your name ▶ Donald J. Hinson Title ▶ EVP / CFO

<b>Paid Preparer Use Only</b>	Print/Type preparer's name	Preparer's signature	Date	Check <input type="checkbox"/> if self-employed	PTIN
	Firm's name ▶				Firm's EIN ▶
	Firm's address ▶				Phone no.

**Washington Banking Company**  
**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 Washington Banking Company, ("Washington Banking") as a result of the merger of Washington Banking with and into Heritage on May 1, 2014. Immediately following the Merger, Washington Banking's wholly owned subsidiary bank, Whidbey Island Bank, merged with and into Heritage's wholly owned subsidiary bank, Heritage Bank ("Heritage Bank").

**Form 8937 Part II, Box 14:**

On May 1, 2014, Washington Banking completed a merger with Heritage. Pursuant to the terms and conditions of the Agreement and Plan of Merger, dated as of May 1, 2014, Washington Banking merged with and into Heritage, resulting in Heritage being the surviving corporation while Washington Banking ceased to exist as a corporation.

**Form 8937 Part II, Box 15 & 16:**

Washington Banking believes that the Merger qualifies as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code. Pursuant to the Merger Agreement, each share of common stock of Washington Banking, issued and outstanding immediately prior to the Merger, was converted into the right to receive 0.89000 shares of Heritage Common Stock and \$2.75 in cash. The fair market value of Heritage stock at the effective time of the merger was \$16.16 per share. The total consideration received per share of stock totaled approximately \$17.13. 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. The basis of Heritage stock in the hands of the taxpayer is the taxpayer's original basis in Washington Banking stock, decreased by cash received, increased by any gain recognized.

A Washington Banking 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 Washington Banking, pursuant to the merger completed on May 1, 2014, 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 Washington Banking shareholder who received Heritage common stock and cash for all of his Washington Banking stock cannot recognize any loss. A Washington Banking shareholder who received cash in lieu of a fractional share of Washington Banking 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 Washington Banking shareholder as a result of the completion of the Merger should be reported for the taxable year which includes May 1, 2014. A calendar year shareholder would report the transaction on a 2014 federal income tax return.

**No legal opinion from U.S. legal counsel or 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.**