

HERITAGE FINANCIAL CORP /WA/  
Form DEF 14A  
June 11, 2014  
Table of Contents

**Proxy Statement Pursuant to Section 14(a) of the  
Securities Exchange Act of 1934**

Filed by the Registrant                       Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2)).**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to Rule 14a-12

**HERITAGE FINANCIAL CORPORATION**

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:  
N/A

(2) Aggregate number of securities to which transactions applies:  
N/A

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11:  
N/A

(4) Proposed maximum aggregate value of transaction:  
N/A

(5) Total fee paid:  
N/A

.. Fee paid previously with preliminary materials: N/A

.. Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

(1) Amount previously paid:  
N/A

(2) Form, Schedule or Registration Statement No.:  
N/A

(3) Filing Party:  
N/A

(4) Date Filed:  
N/A

**Table of Contents**

June 11, 2014

Dear Shareholder:

On behalf of the Board of Directors and management of Heritage Financial Corporation, we cordially invite you to attend the annual meeting of shareholders. The meeting will be held at 10:30 a.m. Pacific time, on Thursday, July 24, 2014 at the DoubleTree by Hilton, 415 Capitol Way N., Olympia, Washington. The matters expected to be acted upon at the meeting are described in the attached Proxy Statement. In addition, we will report on our results of operations during the past year and address your questions and comments.

Effective May 1, 2014, Heritage Financial Corporation completed its previously announced merger with Washington Banking Company. Washington Banking Company merged with and into Heritage Financial Corporation and immediately following this merger, Washington Banking Company's wholly owned subsidiary bank, Whidbey Island Bank, merged with and into Heritage Financial Corporation's wholly owned subsidiary bank, Heritage Bank. The strategic partnership between Heritage Financial Corporation and Washington Banking Company is a transformational and collaborative transaction that will provide enhanced opportunities for the customers, employees and shareholders.

We encourage you to attend the meeting in person. Whether or not you plan to attend, please read the enclosed Proxy Statement and then complete, sign and date the enclosed proxy card and return it in the accompanying postpaid return envelope, or follow the instructions on the proxy card to vote by phone or via the Internet, as promptly as possible. This will save us the additional expense of soliciting proxies and will ensure that your shares are represented at the annual meeting.

Your Board of Directors and management are committed to the continued success of Heritage Financial Corporation and the enhancement of your investment. As President and Chief Executive Officer, I want to express my sincere appreciation for your confidence and support.

We look forward to seeing you at the meeting.

Sincerely,  
Brian L. Vance  
President and Chief Executive Officer

**Table of Contents**

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS**

**Date:** Thursday, July 24, 2014

**Time:** 10:30 a.m. Pacific time

**Place:** DoubleTree by Hilton, 415 Capitol Way N., Olympia, Washington

**Matters to be voted on:**

1. The election of fifteen directors to each serve for a one-year term.
2. An advisory (non-binding) resolution to approve the compensation paid to our named executive officers, as disclosed in this Proxy Statement.
3. The approval of the Heritage Financial Corporation 2014 Omnibus Equity Plan.
4. The ratification of the Audit and Finance Committee's appointment of Crowe Horwath LLP as our independent registered public accounting firm for the year ending December 31, 2014.

We will also transact other business that may properly come before the meeting, or any adjournment or postponement thereof.

Shareholders of record at the close of business on May 28, 2014 are entitled to receive notice of and to vote at the annual meeting.

Please vote your shares at your earliest convenience. This will ensure the presence of a quorum at the meeting. Promptly voting your shares via the Internet, by telephone, or by signing, dating, and returning the enclosed proxy card, which is solicited by the Board of Directors, will save us the expense and extra work for additional solicitation. If you wish to vote by mail, we have enclosed an addressed envelope, postage prepaid if mailed in the United States. The proxy will not be used if you attend and vote at the annual meeting in person. Regardless of the number of shares you own, your vote is very important. Please act today.

By Order of the Board of Directors

Kaylene M. Lahn

Senior Vice President and Corporate Secretary

Olympia, Washington

June 11, 2014

**Table of Contents**

**PROXY STATEMENT TABLE OF CONTENTS**

<u>Merger with Washington Banking Company.</u>	1
<u>Information About the Meeting</u>	1
<u>Security Ownership of Certain Beneficial Owners and Management</u>	5
<u>Proposal 1 Election of Directors</u>	7
<u>Meetings and Committees of the Board of Directors</u>	14
<u>Corporate Governance</u>	16
<u>Director Compensation</u>	20
<u>Compensation, Discussion and Analysis</u>	21
<u>Executive Summary</u>	22
<u>Report of the Compensation Committee</u>	34
<u>Executive Compensation</u>	35
<u>Summary Compensation Table</u>	35
<u>Grants of Plan-Based Awards Table</u>	36
<u>Outstanding Equity Awards Table</u>	37
<u>Option Exercises and Stock Vested</u>	38
<u>Nonqualified Deferred Compensation</u>	38
<u>Potential Payments upon Termination or Change in Control</u>	40
<u>Employment Agreements and Severance/Change in Control Benefits</u>	41
<u>Proposal 2 Advisory Vote on Executive Compensation</u>	44
<u>Report of the Audit and Finance Committee</u>	46
<u>Proposal 3 Approval of the Heritage Financial Corporation 2014 Omnibus Equity Plan</u>	47
<u>Proposal 4 Ratification of the Appointment of Registered Public Accounting Firm</u>	58
<u>Section 16(a) Beneficial Ownership Reporting Compliance</u>	59
<u>Shareholder Proposals</u>	59
<u>Miscellaneous</u>	60
<u>Appendix A Heritage Financial Corporation 2014 Omnibus Equity Plan</u>	A-1

**Table of Contents**

**2014 PROXY STATEMENT  
ANNUAL MEETING OF SHAREHOLDERS**

**HERITAGE FINANCIAL CORPORATION**

201 Fifth Avenue S.W.

Olympia, Washington 98501

(360) 943-1500

The Board of Directors of Heritage Financial Corporation is using this Proxy Statement to solicit proxies from our shareholders for use at the annual meeting of shareholders. We are first mailing this Proxy Statement and the enclosed form of proxy to our shareholders on or about June 11, 2014.

The information provided in this Proxy Statement relates to Heritage Financial Corporation and its wholly-owned bank subsidiary, Heritage Bank. Heritage Financial Corporation may also be referred to as Heritage or the Company. All references in this Proxy Statement to Heritage, we, us and our or similar references means Heritage Financial Corporation and its consolidated subsidiaries and all references to Heritage Financial Corporation means Heritage Financial Corporation excluding its subsidiaries, in each case unless otherwise expressly stated or the context requires otherwise.

**MERGER WITH WASHINGTON BANKING COMPANY**

Effective May 1, 2014, Heritage completed its previously announced merger with Washington Banking Company ( Washington Banking ). Washington Banking merged with and into Heritage and immediately following this merger, Washington Banking 's wholly owned subsidiary bank, Whidbey Island Bank, merged with and into Heritage Bank. As of the date of the merger, seven members of Washington Banking 's Board were appointed to Heritage 's Board and various Board committees. This Proxy Statement identifies the new Board; however, except where specifically stated otherwise, the disclosure herein is as of December 31, 2013 and relates to the prior Board.

**INFORMATION ABOUT THE ANNUAL MEETING**

**Time and Place of the Annual Meeting**

Our annual meeting will be held as follows:

**Date:** Thursday, July 24, 2014  
**Time:** 10:30 a.m., Pacific time  
**Place:** DoubleTree by Hilton, 415 Capitol Way N., Olympia, Washington

**Matters to Be Considered at the Annual Meeting**

At the meeting, you will be asked to consider and vote on:

## Edgar Filing: HERITAGE FINANCIAL CORP /WA/ - Form DEF 14A

The election of fifteen directors to each serve for a one-year term.

An advisory, non-binding, resolution to approve the compensation paid to our named executive officers, as disclosed in this Proxy Statement.

The approval of the Heritage Financial Corporation 2014 Omnibus Equity Plan.

The ratification of the Audit and Finance Committee's appointment of Crowe Horwath LLP as our independent registered public accounting firm for the year ending December 31, 2014.

## **Table of Contents**

We will also transact any other business that may properly come before the annual meeting. As of the date of this Proxy Statement, we are not aware of any business to be presented for consideration at the annual meeting other than the matters described in this Proxy Statement.

### **Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of Shareholders to Be Held on July 24, 2014**

Our Proxy Statement and Annual Report to Shareholders are available at [www.hf-wa.com](http://www.hf-wa.com). The following materials are available for review:

Proxy Statement;

Proxy Card;

Annual Report to Shareholders; and

Directions to attend the annual meeting, where you may vote in person.

### **Who is Entitled to Vote?**

We have fixed the close of business on May 28, 2014, as the record date for shareholders entitled to notice of and to vote at our annual meeting. Only holders of record of Heritage's common stock on that date are entitled to notice of and to vote at the annual meeting. You are entitled to one vote for each share of Heritage common stock you own, unless you acquired more than 10% of Heritage's common stock without prior Board approval. As provided in our Articles of Incorporation, for each vote in excess of 10% of the voting power of the outstanding shares of Heritage's voting stock, the record holders in the aggregate will be entitled to cast one-hundredth of a vote, and the aggregate power of these record holders will be allocated proportionately among these record holders. On May 28, 2014, there were 30,200,590 shares of Heritage common stock outstanding and entitled to vote at the annual meeting.

### **How Do I Vote at the Annual Meeting?**

Proxies are solicited to provide all shareholders on the voting record date an opportunity to vote on matters scheduled for the annual meeting and described in these materials. This answer provides voting instructions for shareholders of record. You are a shareholder of record if your shares of Heritage common stock are held in your name. If you are a beneficial owner of Heritage common stock held by a broker, bank or other nominee (i.e., in street name), please see the instructions in the following question.

Shares of Heritage common stock can only be voted if the shareholder is present in person or by proxy at the annual meeting. To ensure your representation at the annual meeting, we recommend you vote by proxy even if you plan to attend the annual meeting. You can always change your vote at the meeting if you are a shareholder of record.

Voting instructions are included on your proxy card. Shares of Heritage common stock represented by properly executed proxies will be voted by the individuals named on the proxy card in accordance with the shareholder's instructions. Where properly executed proxies are returned to us with no specific instruction as to how to vote at the annual meeting, the persons named in the proxy will vote the shares FOR the election of each of our director nominees, FOR advisory approval of the compensation of our named executive officers as disclosed in this Proxy Statement, FOR the approval of the Heritage Financial Corporation 2014 Omnibus Equity Plan and FOR ratification of the appointment of Crowe Horwath LLP as our independent registered public accounting firm for the year ending December 31, 2014. If any other matters are properly presented at the annual meeting for action, the persons named in the enclosed proxy and acting thereunder will have the discretion to vote on these matters in accordance with their best judgment. We do not currently expect that any other matters will be properly presented for action at the annual meeting.



## **Table of Contents**

You may receive more than one proxy card depending on how your shares are held. For example, you may hold some of your shares individually, some jointly with your spouse and some in trust for your children. In this case, you will receive three separate proxy cards to vote.

### **What if My Shares Are Held in Street Name by a Broker?**

If you are the beneficial owner of shares held in street name by a broker, your broker, as the record holder of the shares, is required to vote the shares in accordance with your instructions. If you do not give instructions to your broker, your broker may nevertheless vote the shares with respect to discretionary items, but will not be permitted to vote your shares with respect to non-discretionary items, pursuant to current industry practice. In the case of non-discretionary items, the shares not voted will be treated as broker non-votes. The proposals for the election of directors, the advisory vote on executive compensation and the approval of the Heritage Financial Corporation 2014 Omnibus Equity Plan are considered non-discretionary items; therefore, you must provide instructions to your broker in order to have your shares voted on these proposals.

If your shares are held in street name, you will need proof of ownership to be admitted to the annual meeting. A recent brokerage statement or letter from the record holder of your shares are examples of proof of ownership. If you want to vote your shares of common stock held in street name in person at the annual meeting, you will have to get a written proxy in your name from the broker, bank or other nominee who holds your shares.

### **How Will My Shares of Common Stock Held in the 401(k) Employee Stock Ownership Plan Be Voted?**

We maintain a 401(k) employee stock ownership plan (KSOP) which owned 372,566 shares or 1.2% of Heritage's common stock as of the record date. Our 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 July 18, 2014.

### **How Many Shares Must Be Present to Hold the Meeting?**

A quorum must be present at the meeting for any business to be conducted. The presence at the meeting, in person or by proxy, of at least a majority of the shares of Heritage common stock entitled to vote at the annual meeting as of the record date will constitute a quorum. Proxies received but marked as abstentions or broker non-votes will be included in the calculation of the number of shares considered to be present at the meeting.

### **What if a Quorum Is Not Present at the Meeting?**

If a quorum is not present at the scheduled time of the meeting, a majority of the shareholders present or represented by proxy may adjourn the meeting until a quorum is present. The time and place of the adjourned meeting will be announced at the time the adjournment is taken, and no other notice will be given unless a new record date for the meeting is set. An adjournment will have no effect on the business that may be conducted at the meeting.

## Table of Contents

### **Vote Required to Approve Proposal 1: Election of Directors**

Directors are elected by a plurality of the votes cast, in person or by proxy, at the annual meeting by holders of Heritage common stock. Accordingly, the 15 nominees for election as directors who receive the highest number of votes actually cast will be elected. Pursuant to our Articles of Incorporation, shareholders are not permitted to cumulate their votes for the election of directors. Votes may be cast for or withheld from each nominee. Votes that are withheld and broker non-votes will have no effect on the outcome of the election because the 15 nominees receiving the greatest number of votes will be elected. **Our Board of Directors unanimously recommends that you vote FOR the election of each of its director nominees.**

### **Vote Required to Approve Proposal 2: Advisory Vote on Executive Compensation**

Approval of the advisory (non-binding) vote on executive compensation requires the affirmative vote of the majority of the shares of Heritage common stock present, in person or by proxy, and entitled to vote at the annual meeting. Abstentions are not affirmative votes and, therefore, will have the same effect as a vote against the proposal. Broker non-votes are not entitled to vote and therefore will have no effect on the approval of the proposal. **Our Board of Directors unanimously recommends that you vote FOR the adoption of an advisory resolution to approve our executive compensation as disclosed in this Proxy Statement.**

### **Vote Required to Approve Proposal 3: Approval of the Heritage Financial Corporation 2014 Omnibus Equity Plan**

Approval of the Heritage Financial Corporation 2014 Omnibus Equity Plan requires the affirmative vote of the majority of the shares of Heritage common stock present, in person or by proxy, and entitled to vote at the annual meeting. Abstentions are not affirmative votes and, therefore, will have the same effect as a vote against the proposal. Broker non-votes are not entitled to vote and therefore will have no effect on the approval of the proposal. **Our Board of Directors unanimously recommends that you vote FOR the approval of the Heritage Financial Corporation 2014 Omnibus Equity Plan as discussed in this Proxy Statement.**

### **Vote Required to Approve Proposal 4: Ratification of the Appointment of Our Independent Registered Public Accounting Firm**

Ratification of the Audit and Finance Committee's appointment of Crowe Horwath LLP as our independent registered public accounting firm for the year ending December 31, 2014, requires the affirmative vote of the majority of the shares of Heritage common stock present, in person or by proxy, and entitled to vote at the annual meeting by holders of Heritage common stock. Abstentions are not affirmative votes and, therefore, will have the same effect as a vote against the proposal. **Our Board of Directors unanimously recommends that you vote FOR the proposal to ratify the selection of Crowe Horwath LLP as our independent registered public accounting firm for the year ending December 31, 2014.**

### **May I Revoke My Proxy?**

You may revoke your proxy before it is voted by:

submitting a new proxy with a later date;

notifying the Corporate Secretary of Heritage in writing before the annual meeting that you have revoked your proxy; or

voting in person at the annual meeting.

**Table of Contents**

If you plan to attend the annual meeting and wish to vote in person, we will give you a ballot at the annual meeting. However, if your shares are held in street name, you must bring a validly executed proxy from the nominee indicating that you have the right to vote the shares.

**SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The following tables set forth, as of the record date or the most currently reported date, information regarding share ownership of:

those persons or entities (or groups of affiliated persons or entities) known by management to beneficially own more than five percent of Heritage's common stock other than directors and executive officers;

each director of Heritage;

each executive officer of Heritage named in the Summary Compensation Table appearing under Executive Compensation above (known as named executive officers); and

all current directors and executive officers of Heritage as a group.

On May 28, 2014, there were 30,200,590 shares of Heritage common stock outstanding.

Persons and groups who beneficially own in excess of five percent of Heritage's common stock are required to file with the Securities and Exchange Commission (SEC), and provide a copy to Heritage, reports disclosing their ownership pursuant to the Securities Exchange Act of 1934, as amended (Securities Exchange Act). To our knowledge, no other person or entity, other than the ones set forth below, beneficially owned more than five percent of the outstanding shares of Heritage's common stock as of the close of business on December 31, 2013, the most recent date for which ownership information is available.

	Number of Shares Beneficially Owned	Percent of Common Stock Outstanding
<b>Beneficial Owners of More Than 5%</b>		
Forest Hill Capital, L.L.C. and Mark Lee <sup>(1)</sup> 100 Morgan Keegan Drive, Suite 430 Little Rock, Arkansas 72202	1,123,682	6.9%
Investment Counselors of Maryland, LLC <sup>(2)</sup> 803 Cathedral Street Baltimore, Maryland 21201	1,073,193	6.6%
BlackRock Inc. <sup>(3)</sup> 40 East 52 <sup>nd</sup> Street New York, New York 10022	979,323	6.0%
Woodmen of the World Life Insurance Society and/or  Omaha Woodmen Life Insurance Company <sup>(4)</sup> 1700 Farnam Street Omaha, Nebraska 68102	926,842	5.7%

(1) According to a Schedule 13G filed with the SEC on February 14, 2014, Forest Hill Capital, L.L.C. and Mark Lee as principal have shared voting power over 391,899 shares and shared dispositive power over 1,123,682 shares.

(2) According to a Schedule 13G filed with the SEC on February 12, 2014, Investment Counselors of Maryland, LLC has sole voting power over 706,388 shares, shared voting power over 366,805 shares and sole dispositive power over 1,073,193 shares.



**Table of Contents**

- (3) According to a Schedule 13G filed with the SEC on January 17, 2014, BlackRock Inc. has sole voting power over 947,569 shares and sole dispositive power over 979,323 shares.
- (4) According to a Schedule 13G filed with the SEC on February 11, 2014, Woodmen of the World Life Insurance Society and/or Omaha Woodmen Life Insurance Company have sole voting and dispositive power over the shares reported.

Beneficial ownership is determined in accordance with the rules and regulations of the SEC. In accordance with Rule 13d-3 of the Securities Exchange Act, a person is deemed to be the beneficial owner of any shares of common stock if he or she has voting and/or investment power with respect to those shares. Therefore, the table below includes shares owned by spouses, other immediate family members in trust, shares held in retirement accounts or funds for the benefit of our named individuals, and other forms of ownership, over which shares the persons named in the table may possess voting and/or investment power. In addition, in computing the number of shares beneficially owned by a person and the percentage ownership of that person, shares of common stock subject to outstanding options that are currently exercisable or exercisable within 60 days after May 28, 2014 are included in the number of shares beneficially owned by the person and are deemed outstanding for the purpose of calculating the person's percentage ownership. These shares, however, are not deemed outstanding for the purpose of computing the percentage ownership of any other person.

The following table shows, as of May 28, 2014, the amount of Heritage common stock owned (unless otherwise indicated) by each director, named executive officers and all of our directors and executive officers as a group. In connection with the merger, seven directors from Washington Banking were added to the Heritage Board of Directors.

	Number of Shares Beneficially Owned	Percent of Common Stock Outstanding
<b>Directors &amp; Officers</b>		
Rhoda L. Altom <sup>(1)</sup>	2,002	*
David H. Brown <sup>(2)</sup>	94,282	*
Brian S. Charneski <sup>(3)</sup>	38,111	*
Gary B. Christensen <sup>(4)</sup>	60,012	*
John A. Clees <sup>(5)</sup>	75,834	*
Mark D. Crawford	7,216	*
Deborah J. Gavin	1,322	*
Kimberly T. Ellwanger <sup>(6)</sup>	16,441	*
Jay T. Lien <sup>(7)</sup>	71,126	*
Jeffrey S. Lyon <sup>(8)</sup>	37,009	*
Gragg E. Miller <sup>(9)</sup>	20,484	*
Anthony B. Pickering <sup>(10)</sup>	59,361	*
Robert T. Severns <sup>(11)</sup>	11,093	*
Ann Watson <sup>(12)</sup>	5,228	*
Brian L. Vance <sup>(13)</sup>	152,031	*
Jeffrey J. Deuel <sup>(14)</sup>	45,170	*
Donald J. Hinson <sup>(15)</sup>	32,481	*
D. Michael Broadhead <sup>(16)</sup>	56,417	*
David A. Spurling <sup>(17)</sup>	36,173	*
<b>Directors and Executive Officers as a group (21 persons)</b>	<b>866,661</b>	<b>2.87%</b>

---

**Table of Contents**

- \* Less than one percent of shares outstanding
- (1) Includes 347 shares held in her son's IRA and 333 shares held in her daughter's IRA.
  - (2) All shares are owned jointly with his spouse.
  - (3) Includes 2,000 shares issuable upon exercise of options, 22,533 shares held jointly with his spouse, 8,675 shares owned by an entity controlled by Mr. Charneski and 420 shares held in trust.
  - (4) Includes 4,550 shares issuable upon exercise of options, 30,157 shares held jointly with his spouse and 21,400 shares owned by entities controlled by Mr. Christensen.
  - (5) Includes 3,500 shares issuable upon exercise of options, 70,850 shares held jointly with his spouse, 1,050 shares owned solely by his spouse and 2,500 shares owned by an entity controlled by Mr. Clees.
  - (6) Includes 2,000 shares issuable upon exercise of options and 13,213 held jointly with her spouse.
  - (7) Includes 3,092 shares issuable upon exercise of options and 623 shares held in a profit sharing plan trust.
  - (8) Includes 3,500 shares issuable upon exercise of options and 3,150 shares held as custodian for a minor.
  - (9) Includes 4,672 shares within a SEP.
  - (10) Includes 3,092 shares issuable upon exercise of options, 48,144 shares held jointly with his spouse, 4,062 shares in an IRA solely owned by Mr. Pickering and 4,062 shares in an IRA solely owned by his spouse.
  - (11) Includes 3,485 shares held in an IRA.
  - (12) Includes 2,000 shares held jointly with her spouse.
  - (13) Mr. Vance is also a director. Includes 85,016 shares held jointly with his spouse and 18,564 vested shares in the retirement plan.
  - (14) Includes 20,000 shares issuable upon exercise of options and 402 vested shares in the retirement plan.
  - (15) Includes 6,880 shares issuable upon exercise of options and 1,722 vested shares in the retirement plan.
  - (16) Includes 10,296 shares issuable upon exercise of options, 20,414 shares owned jointly with his spouse and 2,672 vested shares in the retirement plan.
  - (17) Includes 6,987 shares issuable upon exercise of options, 10,875 shares held jointly with his spouse and 1,777 vested shares in the retirement plan.

**PROPOSAL 1 ELECTION OF DIRECTORS**

Our Board of Directors consists of 15 members and the terms of all current members expire at the 2014 annual meeting. Upon recommendation of the Governance and Nominating Committee, each of these incumbent directors has been nominated by the Board to serve a one-year term ending at the 2015 annual meeting, or when their respective successors have been duly elected and qualified.

On April 29, 2014, and in connection with the merger with Washington Banking, the Board of Directors amended the Bylaws to provide for the current composition of the Board of Directors, including the appointment of the Chairman and the Vice-Chairman of the Board of Heritage. In connection with the Bylaw amendment, Directors Donald V. Rhodes and Daryl D. Jensen resigned from the Boards of Heritage and Heritage Bank effective April 30, 2014.

The table below sets forth information regarding each director of Heritage and each nominee for director, including his or her age, position and term of office. Each nominee has consented to being named in this Proxy Statement and has agreed to serve if elected. If a nominee is unable to stand for election, the Board of Directors may either reduce the number of directors to be elected or select a substitute nominee. If a substitute nominee is selected, the proxy holders will vote your shares for the substitute nominee, unless you have withheld authority. At this time, we are not aware of any reason why a nominee might be unable to serve if elected.

**Table of Contents**

The Board of Directors recommends you vote FOR the election of Rhoda L. Altom, David H. Brown, Brian S. Charneski, Gary B. Christensen, John A. Clees, Mark D. Crawford, Deborah J. Gavin, Kimberly T. Ellwanger, Jay T. Lien, Jeffrey S. Lyon, Gragg E. Miller, Anthony B. Pickering, Robert T. Severns, Brian L. Vance and Ann Watson.

Name	Age <sup>(1)</sup>	Position(s) Held with Heritage	Director	Term to
			Since	Expire <sup>(2)</sup>
<b>Nominees</b>				
Rhoda L. Altom	56	Director	2013*	2015
David H. Brown	68	Director	2013	2015
Brian S. Charneski	52	Vice Chairman	2000	2015
Gary B. Christensen	65	Director	2005	2015
John A. Clees	66	Director	2005	2015
Mark D. Crawford	53	Director	2011*	2015
Kimberly T. Ellwanger	54	Director	2006	2015
Deborah J. Gavin	57	Director	2013*	2015
Jay T. Lien	69	Director	1987*	2015
Jeffrey S. Lyon	61	Director	2001	2015
Gragg E. Miller	62	Director	2009*	2015
Anthony B. Pickering	66	Chairman	1996*	2015