

**Puget Sound Bancorp, Inc. (OTCQB: PUGB; Seattle, WA) has agreed to merge with Heritage Financial Corporation (Nasdaq: HFWA; Olympia, WA)**

**Deal Value: Approximately \$126.1 Million**

Sandler O'Neill acted as exclusive financial advisor and rendered a fairness opinion to Puget Sound Bancorp, Inc. in this transaction.

- Puget Sound Bancorp, Inc., with one branch location, 44% non-interest bearing deposits, and 59% commercial and industrial loans<sup>1</sup>, is the largest business bank headquartered in the Seattle-Bellevue market

Olympia and Seattle, Washington, July 26, 2017, Heritage Financial Corporation ("Heritage") (NASDAQ: HFWA) and Puget Sound Bancorp, Inc. ("Puget Sound") (OTCQB: PUGB) jointly announced today the signing of a definitive agreement under which Heritage will acquire Puget Sound in an all stock transaction valued at approximately \$126.1 million, or \$35.84 per share, based on the closing price of Heritage common stock of \$27.15 on July 26, 2017.

Puget Sound, established in 2005, is a business bank headquartered in downtown Bellevue, Washington with one branch location and has \$567 million in total assets, \$371 million in total loans and \$505 million in total deposits as of June 30, 2017. Puget Sound focuses on business customers and has 44% non-interest bearing deposits and 59% of its loan portfolio is comprised of owner-occupied commercial real estate and commercial & industrial loans. On a combined basis, Heritage will have total assets of approximately \$4.6 billion, total loans in excess of \$3.1 billion and total deposits of approximately \$3.8 billion.

Under the terms of the merger agreement, Puget Sound shareholders will receive 1.3200 shares of Heritage common stock for each share of Puget Sound common stock, subject to potential adjustment. The value of the merger consideration will fluctuate until closing based on the value of Heritage's stock price and subject to a cap and collar in certain circumstances. Upon consummation, the shareholders of Puget Sound are expected to own approximately 13.4% of the combined company.

Sandler O'Neill has advised on 28 bank or thrift transactions in the Western Region since January 1, 2014 representing \$10.1 billion in aggregate transaction value, more transactions and transaction value than any other investment bank during that time period.<sup>2</sup>

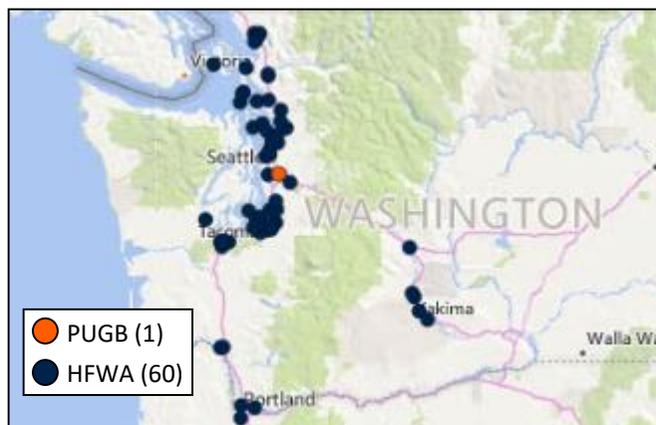
**Financial Highlights (\$ millions)<sup>3</sup>**

	HFWA	PUGB
Total Assets	\$3,991	\$567
Gross Loans	\$2,782	\$371
Deposits	\$3,291	\$505
Equity	\$500	\$54
LTM ROAA	1.09%	0.89%
TCE / TA	9.7%	9.2%

1: Includes owner-occupied commercial real estate.  
 2: Excludes terminated transactions and self-advisory roles.  
 3: Data as of June 30, 2017.

Source: SNL Financial

**Pro Forma Branch Network**



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