

Washington Banking Company (NASDAQ: WBCO; Oak Harbor, WA) and Heritage Financial Corporation (NASDAQ: HFWA; Olympia, WA) Agree to Merge

Deal Value: \$265 million

Sandler O'Neill served as financial advisor and provided a fairness opinion to Washington Banking Company in this transaction. This transaction represents Sandler O'Neill's 102nd bank or thrift transaction nationwide since January 1, 2011. Sandler O'Neill has served as a financial advisor on more bank and thrift transactions than any other investment bank during that time period.¹

Since January 1, 2011, Sandler O'Neill has advised on 23 bank or thrift transactions in the western region with an aggregate deal value of \$4.9 billion, more than any other investment bank.¹

Heritage Financial Corporation and Washington Banking Company jointly announced today the signing of a definitive agreement under which Heritage and Washington Banking will enter into a strategic merger to create one of the premier community banking franchises in Western Washington and the Pacific Northwest.

Based on financial results as of September 30, 2013, the combined company will have approximately \$3.3 billion in total assets, \$2.9 billion in total deposits and \$2.3 billion in total loans with 73 branch locations from Bellingham, Washington to Portland, Oregon.

Under the terms of the merger agreement, Washington Banking shareholders will receive 0.8900 shares of Heritage common stock and \$2.75 cash for each share of Washington Banking common stock. Based on the closing price of Heritage common stock of \$15.89 on October 23, 2013, the consideration value per share for Washington Banking was \$16.89, or approximately \$265 million in aggregate. Upon consummation, the shareholders of Washington Banking will own approximately 46% of the combined company and the shareholders of Heritage will own approximately 54%.

The leadership team of the combined company will be comprised of executives from both organizations. The Washington Banking branches will adopt the Heritage Bank name in all markets, with the exception of six branches in Whidbey Island markets which will continue to operate using the Whidbey Island Bank name. The corporate headquarters of the combined company will be in Olympia, Washington.

Financial Highlights

	WBCO	HFWA
Total Assets	\$1,648	\$1,674
Net Loans	\$1,012	\$1,208
Deposits	\$1,429	\$1,426
Equity	\$182	\$217
NPAs / Assets (%)	2.5%	2.0%
MRQ ROAA (%)	1.1%	0.8%
Market Cap.	\$221	\$258

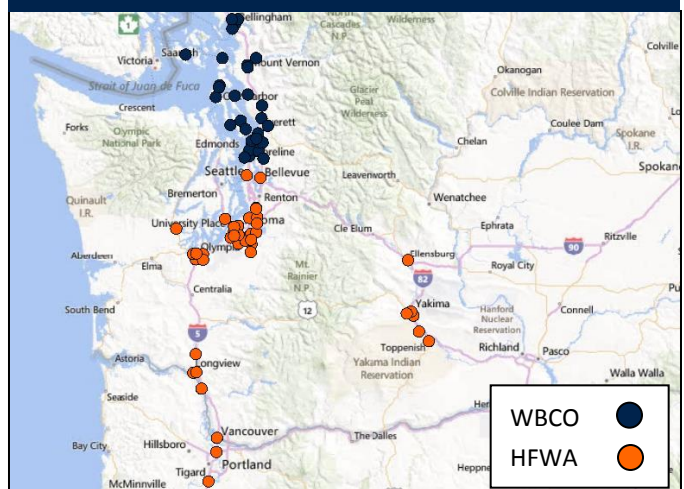
Notes:

Dollars in millions; financial data as of September 30, 2013

¹Excludes terminated transactions and self-advisory roles

Source: SNL Financial

Pro Forma Branch Network



Sandler O'Neill Contacts:

ADAM KEEFER
Associate Director
(415) 978-5057

ALEC MACCOLL
Associate
(415) 978-5053

WHITNEY KUKULKA
Analyst
(415) 978-5052