

HERITAGE FINANCIAL CORP /WA/

Form 424B3

May 23, 2013

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Registration No. 333-188326**

Proxy Statement of Valley Community Bancshares, Inc.

Prospectus of Heritage Financial Corporation

PROPOSED MERGER YOUR VOTE IS VERY IMPORTANT

We are pleased to report that the board of directors of Valley Community Bancshares, Inc. (Valley) has approved a merger involving Valley and Heritage Financial Corporation (Heritage). Before we can complete the merger, we must obtain the approval of the shareholders of Valley. We are sending you this document to ask you to approve the merger agreement at a special meeting of Valley shareholders to be held at the time and place indicated in the meeting notice on the next page. No vote of Heritage shareholders is required to complete the merger. This document, which serves as a proxy statement for the special meeting and as a prospectus for the shares of Heritage common stock to be issued in the merger to the shareholders of Valley, gives you detailed information about the special meeting and the merger. **Please read this entire document carefully, including the Risk Factors section beginning on page 11.**

Valley will merge into Heritage, with Heritage as the surviving entity. In the merger, shareholders of Valley will be entitled to receive \$19.50 in cash and 1.3611 shares of Heritage common stock, subject to adjustment as described in the merger agreement and this document, for each share of Valley common stock that they hold prior to the merger. On May 15, 2013, the implied value of the merger consideration for each share of Valley common stock was \$38.45, based on the closing price per share of Heritage common stock on that date. The market price of Heritage common stock will fluctuate before the merger. You should obtain current stock price quotations for Heritage common stock. Heritage common stock is listed on the NASDAQ Global Select Market under the symbol HFWA and Valley common stock is not listed or traded on any established securities exchange or quotation system.

Your vote is very important. Not voting will have the same effect as voting against the merger agreement, so whether or not you plan to attend the special meeting, please promptly return your completed and executed proxy card so that your shares are voted at the special meeting.

The board of directors of Valley unanimously recommends that you vote FOR approval of the merger agreement.

On behalf of the board of directors of Valley, thank you for your prompt attention to this important matter.

Sincerely,

David H. Brown

President and Chief Executive Officer

Valley Community Bancshares, Inc.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved the securities to be issued in the merger or passed upon the adequacy or accuracy of this proxy statement/prospectus. Any representation to the contrary is a criminal offense.

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The securities to be issued in the merger are not savings or deposit accounts or other obligations of any bank or nonbank subsidiary of Heritage or Valley, and are not insured by the Federal Deposit Insurance Corporation or any other governmental agency.

This proxy statement/prospectus is dated May 17, 2013, and is being first mailed to Valley shareholders on or about May 23, 2013.

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VALLEY COMMUNITY BANCSHARES, INC.

1307 East Main Avenue

Puyallup, Washington 98372

NOTICE OF SPECIAL MEETING OF SHAREHOLDERS

TO BE HELD ON JUNE 27, 2013

Dear Shareholder:

Valley Community Bancshares, Inc., or Valley, will hold a special meeting of shareholders at the Georgian Room of the Best Western Park Plaza Hotel, 620 South Hill Park Drive, Puyallup, Washington at 10:30 a.m., local time, on June 27, 2013, to consider and vote on:

a proposal to approve the Agreement and Plan of Merger, dated as of March 11, 2013, by and between Heritage Financial Corporation, or Heritage, and Valley, as it may be amended from time to time, pursuant to which Valley will merge with and into Heritage with Heritage as the surviving company;

any proposal of the Valley board of directors to adjourn or postpone the special meeting, if necessary, to permit further solicitation of proxies if there are not sufficient votes at the time of the special meeting to approve the merger agreement; and

such other business as may properly come before the special meeting or any adjournment or postponement of the special meeting.

The Valley board of directors has determined that the terms of the merger are fair to and in the best interests of Valley and its shareholders. **The Valley board of directors unanimously recommends that Valley shareholders vote FOR approval of the merger agreement and FOR approval of any proposal of the Valley board of directors to adjourn or postpone the special meeting, if necessary.**

May 15, 2013 has been fixed as the record date for the determination of shareholders entitled to notice of, and to vote at, the special meeting and any adjournment or postponement thereof. Only holders of record of shares of Valley common stock at the close of business on the record date are entitled to notice of, and to vote at, the special meeting.

You are cordially invited to attend the special meeting in person. However, please vote, sign, date and return the enclosed proxy card in the enclosed, self-addressed envelope as promptly as possible, even if you plan to attend the special meeting. No additional postage is required if mailed in the United States. If you choose to attend the special meeting, you may vote your shares in person, even if you have previously signed and returned your proxy card. If you hold your Valley shares through a bank, broker or other nominee (commonly referred to as held in street name), you must direct your bank, broker or other nominee to vote in accordance with the instructions you have received from them. You may revoke your proxy at any time prior to the special meeting as specified in the accompanying proxy statement/prospectus.

In connection with the proposed merger, Valley shareholders will have the opportunity to exercise dissenters' rights in accordance with the procedures specified in Chapter 23B.13 of the Washington Business Corporation Act (Chapter 23B.13 of the Revised Code of Washington (RCW)), or the WBCA. Chapter 23B.13 of the WBCA is included in the accompanying proxy statement/prospectus as **Appendix C**. A dissenting shareholder who follows the required procedures may receive cash in an amount equal to the fair value of his or her shares of Valley common stock instead of receiving a combination of cash and shares of Heritage common stock, and cash in lieu of any fractional Heritage shares. A shareholder who chooses to dissent pursuant to Chapter 23B.13 of the WBCA may provide the required notice specified therein to Valley's principal executive offices at 1307 East Main Avenue, Puyallup, Washington 98372. For additional details about dissenters' rights, please refer to the section entitled **The Merger Dissenters' Rights of Valley Shareholders** and **Appendix C** in the accompanying proxy statement/prospectus.

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We look forward to hearing from you.

By Order of the Board of Directors,

Thomas M. Pasquier

Chairman of the Board of Directors

Valley Community Bancshares, Inc.

Puyallup, Washington

May 23, 2013

YOUR VOTE IS VERY IMPORTANT

WHETHER OR NOT YOU PLAN TO ATTEND THE SPECIAL MEETING, PLEASE MARK, SIGN AND DATE THE ENCLOSED PROXY CARD AND PROMPTLY RETURN IT IN THE ENCLOSED POSTAGE-PAID ENVELOPE.

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REFERENCES TO ADDITIONAL INFORMATION

This proxy statement/prospectus incorporates important business and financial information about Heritage from documents filed with the Securities and Exchange Commission, or the SEC, that are not included in or delivered with this proxy statement/prospectus. This information is available to you without charge upon your written or oral request. You can obtain these documents through the SEC website at <http://www.sec.gov>, or by requesting them in writing or by telephone from Heritage, as follows:

Heritage Financial Corporation

201 Fifth Avenue SW

Olympia, Washington 98501

Attention: Kaylene M. Lahn,

Senior Vice President and Corporate Secretary

(360) 943-1500

If you would like to request documents, please do so by June 20, 2013 to receive them before the special meeting.

For additional details about where you can find more information about Heritage, see *Where You Can Find More Information* on page 58.

Heritage supplied all information contained or incorporated by reference in this proxy statement/prospectus relating to Heritage and Valley supplied all information contained in this proxy statement/prospectus relating to Valley.

You should rely only on the information contained or incorporated by reference in this proxy statement/prospectus. No one has been authorized to provide you with information that is different from what is contained in this proxy statement/prospectus. You should not assume that the information contained in this proxy statement/prospectus is accurate as of any date other than the date of this proxy statement/prospectus, and neither the mailing of this proxy statement/prospectus to Valley shareholders nor the issuance of Heritage common stock in the merger shall create any implication to the contrary.

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- A Agreement and Plan of Merger, dated as of March 11, 2013, by and between Heritage Financial Corporation and Valley Community Bancshares, Inc.
- B Opinion of McAdams Wright Ragen, Inc.
- C Chapter 23B.13 of the Washington Business Corporation Act

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QUESTIONS AND ANSWERS ABOUT THE MERGER AND THE SPECIAL MEETING

Q: Why do Heritage and Valley want to merge?

A: We believe the combination of our companies will create a leading community banking franchise in western Washington. The combined branch network of the two companies is expected to allow for more effective marketing and customer convenience. The board of directors of Valley believes that the merger is fair to and in the best interests of Valley and its shareholders, and unanimously recommends that Valley shareholders vote for approval of the merger agreement. You should review the reasons for the merger described in greater detail under The Merger Valley's Reasons for the Merger; Recommendation of Valley's Board of Directors beginning on page 26 and The Merger Heritage's Reasons for the Merger beginning on page 28.

Q: What will I receive in the merger for my shares of Valley common stock?

A: You will be entitled to receive \$19.50 in cash and 1.3611 shares of Heritage common stock in exchange for each share of Valley common stock you hold prior to the completion of the merger, with cash paid in lieu of any fractional Heritage shares, which we refer to as the merger consideration. The value of the merger consideration will fluctuate with the market price of Heritage common stock. The merger consideration is subject to adjustment if Heritage's volume weighted average closing stock price for the twenty trading days starting on the twenty-fifth day prior to the closing is less than \$11.46 or equal to or greater than \$17.19 per share. A security's volume weighted average price is calculated by dividing the total dollar amount traded on a security for a given day (dollar volume) by the total number of shares traded during the same day (share volume). For further information, see Summary What Valley Shareholders Will Receive in the Merger.

Q: When and where is the special meeting?

A: The special meeting is scheduled to take place on June 27, 2013, at 10:30 a.m., local time, at the Georgian Room of the Best Western Park Plaza Hotel, 620 South Hill Park Drive, Puyallup, Washington.

Q: What will be voted on at the special meeting?

A: At the special meeting, the holders of Valley common stock will be asked to approve the merger agreement with Heritage, as well as any proposal of the Valley board of directors to adjourn or postpone the special meeting, if necessary, to permit further solicitation of proxies if there are not sufficient votes at the time of the special meeting to approve the merger agreement.

Q: What should I do now?

A: After you have carefully read this proxy statement/prospectus, please vote your shares promptly. If you hold shares in your own name as a shareholder of record, you should complete, sign, date, and mail your proxy card in the enclosed postage-paid return envelope as soon as possible. Please vote by proxy even if you plan to attend the special meeting. If you hold your Valley shares through a bank, broker or other nominee (commonly referred to as held in street name), you must direct your bank, broker or other nominee to vote in accordance with the instructions you have received from them.

If you choose to attend the special meeting, you may vote your shares in person, even if you have previously returned your proxy. Please note that if you hold your shares in street name, you must obtain a legal proxy from your bank, broker or other nominee in order to vote your shares in person at the special meeting.

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Q: Why is my vote important?

A: We cannot complete the merger unless the shareholders of Valley approve the merger agreement. Approval of the merger agreement requires the affirmative vote of the holders of at least two-thirds of the outstanding shares of Valley common stock as of the voting record date for the special meeting. Accordingly, if you do not vote or if you abstain from voting, it will have the same effect as voting against approval of the merger agreement.

Q: If my shares are held in street name with a bank, broker or other nominee, will my bank, broker or other nominee vote my shares for me?

A: No. Without instructions from you, your bank, broker or other nominee will not be able to vote your shares. This will have the same effect as voting against approval of the merger agreement.

Q: Can I change my vote before the special meeting?

A: Yes. If you are the record holder of your shares, there are three ways you can change your vote after you have submitted your proxy:

First, you may send a written notice to the corporate secretary of Valley stating that you would like to revoke your proxy.

Second, you may complete and submit a new proxy card. Your latest vote received before the special meeting will be counted, and any earlier votes will be revoked.

Third, you may attend the special meeting in person and vote in person. Any earlier proxy will thereby be revoked. However, simply attending the meeting without voting will not revoke an earlier proxy you may have given.

If you hold your shares in street name with a bank, broker or other nominee, you must follow the directions you receive from your bank, broker or other nominee to change your vote. Your last vote will be the vote that is counted.

Q: What if I want to exercise dissenters' rights?

A: If you want to exercise dissenters' rights, you must deliver to Valley, before the vote is taken by Valley shareholders on the approval of the merger agreement, written notice of your intent to exercise your dissenters' rights if the merger is completed. Also, you must vote against, or abstain from voting on, the approval of the merger agreement and follow other procedures, both before and after the meeting, as described in **Appendix C**. Note that if you return a signed proxy card without voting instructions or with instructions to vote **FOR** the merger agreement, your shares will be automatically voted in favor of the merger agreement and you will lose all dissenters' rights available under Washington law.

Q: What are the U.S. federal income tax consequences of the merger to me?

A: Heritage and Valley will not be required to complete the merger unless they receive legal opinions from their respective counsel to the effect that the merger will qualify as a tax-free reorganization for United States federal income tax purposes. U.S. holders of Valley

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common stock are not expected to recognize any gain or loss for U.S. federal income tax purposes on the exchange of shares of Valley common stock for shares of Heritage common stock in the merger, except that U.S. holders may recognize gain (but not loss) to the extent of the amount of cash received in the merger. For further information, see "The Merger - Material U.S. Federal Income Tax Consequences of the Merger."

The U.S. federal income tax consequences described above may not apply to all holders of Valley common stock. Tax matters are very complicated and the consequences of the merger to any particular shareholder of

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Valley will depend on that shareholder's particular facts and circumstances. Accordingly, you are strongly urged to consult your own tax advisor to determine the particular tax consequences of the merger to you.

Q: When do you currently expect to complete the merger?

A: In the third quarter of 2013. However, we cannot assure you when or if the merger will occur. We must first obtain the approval of Valley shareholders at the special meeting and the necessary regulatory approvals, and the other conditions to completing the merger must be satisfied or waived.

Q: Should I send in my Valley stock certificates now?

A: No. You should not send in your stock certificates at this time. Following the completion of the merger, the exchange agent appointed by Heritage will send you a letter of transmittal and instructions on surrendering your Valley stock certificates. Once the exchange agent has received the proper documentation, the exchange agent will send you a check for cash and your shares of Heritage common stock and cash in lieu of any fractional Heritage shares.

You are advised, however, to locate your stock certificate(s) at this time because, if the merger is approved, you will be required to surrender your Valley stock certificate(s) to receive the merger consideration.

Q: Whom should I call with questions?

A: If you have questions about the merger or the process for voting or if you need additional copies of this proxy statement/prospectus or a replacement proxy card, please contact:

David H. Brown

Valley Community Bancshares, Inc.

1307 East Main Avenue

Puyallup, Washington 98372

Telephone: (253) 848-2316

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SUMMARY

This summary highlights selected information from this proxy statement/prospectus and may not contain all of the information that is important to you. You should carefully read this entire document, including the appendices, and the other documents to which this document refers to fully understand the merger and the related transactions. A list of the documents incorporated by reference appears on page 58 under Where You Can Find More Information.

THE COMPANIES (see page 48)

Heritage Financial Corporation

201 Fifth Avenue SW

Olympia, Washington 98501

Telephone: (360) 943-1500

Heritage Financial Corporation, or Heritage, a Washington corporation, is the holding company for Heritage Bank and Central Valley Bank. Heritage Bank serves western Washington and the greater Portland, Oregon area through its 28 full-service banking offices and Central Valley Bank serves Yakima and Kittitas counties in central Washington through its six full-service banking offices.

As of March 31, 2013, Heritage had total consolidated assets of \$1.45 billion, deposits of \$1.23 billion and shareholders' equity of \$200.5 million.

Valley Community Bancshares, Inc.

1307 East Main Avenue

Puyallup, Washington 98372

Telephone: (253) 848-2316

Valley Community Bancshares, Inc., or Valley, is a privately owned Washington corporation registered as a bank holding company for Valley Bank, which was established through a reorganization completed on July 1, 1998. In addition to its main office, it operates nine banking locations, including a drive-up facility, in the south King County and eastern Pierce County regions of Washington.

As of March 31, 2013, Valley had total consolidated assets of \$234.0 million, deposits of \$203.0 million and shareholders' equity of \$30.0 million.

THE MERGER AND THE MERGER AGREEMENT (see pages 24 and 38)

The terms and conditions of the merger are contained in the merger agreement, which is included in this proxy statement/prospectus as **Appendix A**. Please carefully read the merger agreement as it is the legal document that governs the merger.

Valley Will Merge into Heritage

In the merger, Valley will merge into Heritage, with Heritage as the surviving corporation. It is expected that, immediately following the merger, Valley Bank, a wholly owned subsidiary of Valley, will merge into Heritage Bank, a wholly owned subsidiary of Heritage, with Heritage Bank as the surviving institution. We refer to the merger of Heritage Bank and Valley Bank as the bank merger.

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What Valley Shareholders Will Receive in the Merger

Upon completion of the merger, each share of Valley common stock that is outstanding immediately prior to the merger will be converted into the right to receive \$19.50 in cash and 1.3611 shares of Heritage common stock (with cash paid in lieu of fractional share interests), subject to adjustment. We sometimes refer to this 1.3611-to-one ratio as the exchange ratio. If Heritage's volume weighted average closing stock price for the twenty trading days commencing on the twenty-fifth day prior to the closing (the Heritage average closing price) is between \$11.46 and \$17.19 per share, then the exchange ratio will be fixed at 1.3611 per share. If the Heritage average closing price is equal to or greater than \$17.19 per share, then the exchange ratio will adjust and the merger consideration will be \$42.90 per share of which \$19.50 will be paid in cash and the exchange ratio will be adjusted by dividing \$23.3973 by the Heritage average closing price. If Heritage's average closing price is less than \$11.46, and Heritage does not elect to terminate the merger agreement, then Heritage has the right to either fix the exchange ratio at 1.3611 and pay the balance of the merger consideration in cash or adjust the exchange ratio above 1.3611 provided that at least \$19.50 of the merger consideration is paid in cash, and in either case the total merger consideration per share is \$35.10 based on the Heritage average closing price. Cash will be paid in lieu of any fractional Heritage shares in an amount equal to the fraction multiplied by Heritage average closing price.

For example, if you hold 500 shares of Valley common stock immediately prior to the merger and the Heritage average closing price is \$16.00, you will receive \$9,750 in cash (500 x \$19.50 per share) and 680 shares of Heritage common stock (500 x 1.3611).

Valley Shareholders Should Wait to Surrender Their Stock Certificates Until After the Merger

To receive your payment and shares of Heritage common stock and cash in lieu of any fractional Heritage shares, you will need to surrender your Valley stock certificates. If the merger is completed, the exchange agent appointed by Heritage will send you written instructions for exchanging your stock certificates. The exchange agent will be Computershare Trust Company, N.A., Heritage's stock transfer agent, or an unrelated bank or trust company reasonably acceptable to Valley.

Please do not send in your certificates until you receive these instructions.

The Merger Is Expected to be Generally Tax-Free to Holders of Valley Common Stock with respect to the receipt of Heritage shares (see page 31)

The merger has been structured to qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended. U.S. holders of Valley common stock are not expected to recognize any gain or loss for U.S. federal income tax purposes on the exchange of shares of Valley common stock for shares of Heritage common stock in the merger, except that U.S. holders may recognize gain (but not loss) to the extent of the amount of cash received in the merger. For further information, see The Merger Material U.S. Federal Income Tax Consequences of the Merger.

The U.S. federal income tax consequences described above may not apply to all holders of Valley common stock. Tax matters are very complicated and the consequences of the merger to any particular shareholder of Valley will depend on that shareholder's particular facts and circumstances. Accordingly, you are strongly urged to consult your own tax advisor to determine the particular tax consequences of the merger to you.

Valley Shareholders May Exercise Dissenters' Rights (see page 35)

Under Washington law, you have the right to dissent from the merger and receive cash equal to the fair value of your Valley shares instead of receiving a combination of cash and Heritage common stock. To exercise

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dissenters' rights, you must strictly follow the procedures established by Chapter 23B.13 of the WBCA, including the delivery to Valley before the vote is taken by Valley shareholders on the approval of the merger agreement of written notice of your intent to demand payment for your shares of Valley common stock if the merger is effected and you must vote against, or abstain from voting on, the approval of the merger agreement. See The Merger Dissenters' Rights of Valley Shareholders on page 35 and **Appendix C** to this proxy statement/prospectus.

Opinion of Valley's Financial Advisor (see page 28)

On March 11, 2013, McAdams Wright Ragen, Inc., or MWR, rendered to the Valley board its oral opinion, which was subsequently confirmed in writing by delivery of MWR's written opinion, that the aggregate merger consideration was fair as of that date, from a financial point of view, to the holders of Valley common stock.

MWR's opinion was directed to the Valley's board and only addressed the fairness, from a financial point of view, of the aggregate merger consideration to be received by the holders of Valley common stock pursuant to the merger agreement and did not address any other aspect or implication of the merger. The references to MWR's opinion in this proxy statement/prospectus are qualified in their entirety by reference to the full text of MWR's written opinion, which is included as **Appendix B** to this proxy statement/prospectus and sets forth the procedures followed, assumptions made, qualifications and limitations on the review undertaken and other matters considered by MWR in preparing its opinion. However, neither MWR's opinion, nor the summary of its opinion and the related analyses set forth in this proxy statement/prospectus is intended to be, and they do not constitute, advice or a recommendation to the Valley's board or any shareholder of Valley as to how to act or vote with respect to any matter relating to the merger agreement or otherwise. MWR's opinion was furnished for the use and benefit of the Valley's board (in its capacity as such) in connection with its evaluation of the merger and should not be construed as creating, and MWR will not be deemed to have, any fiduciary duty to the Valley's board, Valley, any security holder or creditor of Valley or any other person, regardless of any prior or ongoing advice or relationships.

Valley's Board of Directors Recommends that Valley Shareholders Vote FOR Approval of the Merger Agreement (see page 21)

Valley's board of directors has unanimously determined that the merger, the merger agreement and the transactions contemplated by the merger agreement are advisable and in the best interests of Valley and its shareholders and unanimously recommends that Valley shareholders vote FOR approval of the merger agreement.

In determining whether to approve the merger agreement, Valley's board of directors consulted with certain of its senior management and with its legal and financial advisors. In arriving at its determination, the Valley board of directors also considered the factors described under The Merger Valley's Reasons for the Merger; Recommendation of Valley's Board of Directors.

Interests of Valley Directors and Executive Officers in the Merger (see page 37)

Some of the executive officers and directors of Valley have interests in the merger that are in addition to, or different from, the interests of Valley shareholders generally. These interests include the following:

One executive officer holds Valley stock options that will be cancelled prior to the completion of the merger and he will receive a cash payment to the extent the options are then in-the-money;

David H. Brown, the current President and Chief Executive Officer of Valley, will receive a payment of \$579,928 to terminate his Supplemental Retirement Benefit Agreement and a \$240,089 severance payment to terminate his Executive Severance Agreement;

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Joseph E. Riordan, the current Executive Vice President and Chief Financial Officer of Valley, will receive a payment of \$166,214 to terminate his Supplemental Retirement Benefit Agreement and a \$232,183 severance payment to terminate his Executive Severance Agreement;

David H. Brown, a director of Valley, will be added to the Heritage board and the Heritage Bank board; and

Valley's directors and executive officers will be entitled to indemnification by Heritage with respect to claims arising from matters occurring at or prior to the effective time of the merger and to coverage under a directors' and officers' liability insurance policy for up to six years after the merger.

The Valley board of directors was aware of these interests and considered them, among other matters, in approving the merger agreement and the transactions contemplated by the merger agreement.

Treatment of Valley Stock Options

The merger agreement requires Valley to cause all outstanding and unexercised options to purchase shares of Valley common stock to be cancelled prior to the effective time of the merger. In the case of out-of-the-money options, no payment will be made to the option holder for cancellation and in the case of in-the-money options, Valley must pay the option holder an amount equal to the value of the merger consideration per share of Valley common stock less the per share exercise price of the option multiplied by the number of shares underlying the option.

Regulatory Approvals (see page 35)

Under federal law, the merger must be approved by the Board of Governors of the Federal Reserve System, or Federal Reserve Board, and the bank merger must be approved by the Federal Deposit Insurance Corporation, or FDIC, and the Washington Department of Financial Institutions, or DFI. The U.S. Department of Justice may review the impact of the merger and the bank merger on competition.

We have requested a waiver from the Federal Reserve Board of its application requirements that would apply to this merger. Assuming this waiver is granted, once the FDIC and DFI approve the merger, we must wait for up to 30 days before we can complete the merger. If, however, there are no adverse comments from the U.S. Department of Justice and we receive permission from the FDIC and DFI to do so, the merger may be completed on or after the 15th day after approval from the Federal Reserve Board.

As of the date of this proxy statement/prospectus, all of the required regulatory applications have been filed. There can be no assurance as to whether all regulatory approvals will be obtained or as to the dates of the approvals. There also can be no assurance that the regulatory approvals received will not contain any unduly burdensome condition. It is a condition to Heritage's obligation to complete the merger that no such regulatory unduly burdensome condition be imposed. See The Merger Agreement Conditions to Completion of the Merger.

Conditions to Completion of the Merger (see page 45)

The completion of the merger depends on a number of conditions being satisfied or, where permitted, waived, including:

approval of the merger agreement by Valley's shareholders;

approval for listing on the NASDAQ Stock Market of the shares of Heritage common stock to be issued in the merger;

absence of any injunction or other legal restraint blocking the merger or the bank merger;

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receipt of all required regulatory approvals without the imposition of any unduly burdensome condition upon Heritage following the merger or Heritage Bank following the bank merger;

accuracy, generally in all material respects, of Heritage's and Valley's respective representations and warranties in the merger agreement on the date of the merger agreement and the closing date of the merger;

performance in all material respects by Heritage and Valley of their respective obligations under the merger agreement;

as a condition to Heritage's obligation to complete the merger, the holders of 10% or more of the outstanding shares of Valley common stock do not exercise dissenters' rights; and

as a condition to Valley's obligation to complete the merger, the receipt by Valley an opinion of its legal counsel and a copy of the opinion rendered to Heritage by its legal counsel as to the U.S. federal income tax consequences of the merger.

No assurance can be given as to when, or if, the conditions to the merger will be satisfied or waived, or that the merger will be completed.

Non-Solicitation (see page 43)

Valley has agreed that it generally will not solicit or encourage any inquiries or proposals regarding any acquisition proposals by third parties. Valley may respond to an unsolicited proposal if the board of directors of Valley determines that the proposal is reasonably likely to constitute or result in a transaction that is more favorable from a financial point of view to Valley's shareholders than the merger with Heritage and that the board's failure to respond would result in a violation of its fiduciary duties. Valley must promptly notify Heritage if it receives any acquisition proposals.

Termination of the Merger Agreement (see page 46)

Heritage and Valley can jointly agree to terminate the merger agreement at any time. Either company may also terminate the merger agreement:

if a regulatory or other governmental authority denies approval of the merger or the bank merger and such denial has become final and nonappealable, provided that the denial is not due to the failure of the company seeking termination to perform any of its covenants under the merger agreement, or if a court or other governmental body issues a final, nonappealable order prohibiting the merger or the bank merger;

if the merger has not been completed by October 31, 2013, unless due to the failure of the company seeking termination to perform or observe its covenants and agreements set forth in the merger agreement;

if the other company breaches any representation, warranty, covenant or other agreement, which breach results in a failure to satisfy the closing conditions of the party seeking termination and such breach is not, or cannot be, timely cured, provided that the party seeking termination is not itself in material breach of the merger agreement; or

if the shareholders of Valley fail to approve the merger agreement at the special meeting; provided Valley must pay Heritage a \$1,760,000 termination fee if (i) prior to the termination, a third party proposal to acquire Valley or any of its significant subsidiaries has been publicly announced and (ii) within one year of the termination, Valley or any of its significant subsidiaries either enters into a definitive agreement to be acquired in a transaction or that transaction is consummated.

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Set forth below are other termination events that would result in Valley being obligated to pay Heritage a \$1,760,000 termination fee.

a termination by Heritage based on (i) the board of directors of Valley either failing to continue its recommendation that the Valley shareholders approve the merger agreement or adversely changing such recommendation or (ii) Valley materially breaching the provisions of the merger agreement relating to third party acquisition proposals; or

a termination by Valley prior to it obtaining shareholder approval of the merger agreement in order to enter into a definitive acquisition agreement with a third party with respect to a superior unsolicited acquisition proposal.

Heritage may also terminate the merger agreement if the Heritage average closing price is less than \$11.46.

Differences in Shareholder Rights (see page 52)

Valley and Heritage are both incorporated under the laws of the State of Washington, which governs the rights of holders of Valley common stock and Heritage common stock. Some of the key differences between Valley's and Heritage's articles of incorporation and bylaws are:

the total number of shares of authorized capital stock of Heritage is 52,500,000 shares (50,000,000 common and 2,500,000 preferred), compared to 5,000,000 shares of common stock and no preferred for Valley);

All of the directors of Heritage's board of directors are elected annually by the shareholders; all of the directors of Valley are divided into three classes, with the directors serving staggered three-year terms and approximately one-third of the directors elected by the shareholders annually; and

Heritage's articles of incorporation provides that no shareholder beneficially owning more than 10% of the outstanding shares of Heritage common stock may vote his or her shares in excess of that amount, and that certain business combinations with persons owning more than 10% of its outstanding shares require approval of the holders of at least 80% of the outstanding shares of common stock, unless either a majority of the disinterested directors have approved the transaction or certain fair price and procedure requirements are satisfied; no such provisions or similar provisions are contained in Valley's articles of incorporation.

The rights of shareholders of Valley and Heritage are described in detail under "Comparison of Shareholder Rights" beginning on page 52.

Listing of Heritage Shares

The shares of Heritage common stock to be issued in the merger will be listed for trading on the NASDAQ Global Select Market.

Heritage to Use Purchase Accounting

Heritage will account for the merger under the purchase method of accounting for business combinations under accounting principles generally accepted in the United States of America.

Per Share Market Price Information

Heritage common stock trades on the NASDAQ Global Select Market under the symbol HFWA. Valley common stock is not listed or traded on any established securities exchange or quotation system. The following table presents the closing sale price of Heritage common stock on March 8, 2013, the last trading day before the

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date of the public announcement of the merger agreement, and May 15, 2013, the last practicable trading day prior to the printing of this proxy statement/prospectus. The table also presents the equivalent value of the merger consideration per share of Valley common stock on those dates, calculated by multiplying the closing price of Heritage common stock on those dates by the exchange ratio of 1.3611 and adding the \$19.50 per share in cash.

Date	Heritage Closing Price	Equivalent Valley Per Share Value
March 8, 2013	\$ 14.20	\$ 38.83
May 15, 2013	\$ 13.92	\$ 38.45

The market price of Heritage common stock will fluctuate prior to the merger. You should obtain a current price quotation for Heritage common stock.

Valley Will Hold its Special Meeting on June 27, 2013 (see page 21)

The special meeting of Valley shareholders will be held at the Georgian Room of the Best Western Park Plaza Hotel, 620 South Hill Park Drive, Puyallup, Washington, on June 27, 2013 at 10:30 a.m., local time. At the special meeting, Valley shareholders will be asked to:

vote on the proposal to approve the merger agreement;

vote on any proposal of the Valley board of directors to adjourn or postpone the special meeting, if necessary, to permit further solicitation of proxies if there are not sufficient votes at the time of the special meeting to approve the merger agreement; and

to transact any other business as may properly be brought before the special meeting or any adjournment or postponement of the special meeting.

You can vote at the special meeting if you owned Valley common stock as of the close of business on May 15, 2013. On that date, there were 1,126,613 shares of Valley common stock outstanding and entitled to vote, approximately 11.07% of which were owned and entitled to be voted by Valley directors and executive officers and their affiliates. As of the record date, the directors and executive officers of Heritage did not own or have the right to vote any of the outstanding shares of Valley common stock. You can cast one vote for each share of Valley common stock you owned on that date.

In order to approve the merger agreement, the holders of at least two-thirds of the outstanding shares of Valley common stock entitled to be cast must vote in favor of doing so. Certain of Valley's directors and executive officers and their affiliates have entered into voting agreements with Heritage under which they have agreed to vote all of the shares over which they have voting power for approval of the merger agreement. A total of 124,733 shares of Valley common stock, representing approximately 11.07% of the outstanding shares of Valley common stock entitled to vote at the special meeting, are subject to these voting agreements.

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RISK FACTORS

*In addition to the other information contained in or incorporated by reference into this proxy statement/prospectus, including the matters addressed under the caption **Cautionary Statement Regarding Forwarding-Looking Statements** and the discussion under **Risk Factors** in Heritage's Annual Report on Form 10-K for the year ended December 31, 2012, you should carefully consider the following risk factors in deciding how to vote your shares.*

Because the market price of Heritage common stock will fluctuate, you cannot be sure of the value of the merger consideration you will receive.

Upon completion of the merger, each share of Valley common stock will be converted into the right to receive \$19.50 in cash and 1.3611 shares of Heritage common stock, subject to adjustment as provided in the merger agreement, with cash paid in lieu of any fractional Heritage shares. Accordingly, any change in the market price of Heritage common stock will affect the value of the consideration you will be entitled to receive in the merger. The closing prices of Heritage common stock on March 8, 2013, the last trading day prior to the public announcement of the merger, and on May 15, 2013, the latest practicable date prior to the printing of this proxy statement/prospectus, were \$14.20 and \$13.92, respectively, resulting in implied values per Valley share based on the exchange ratio of \$38.83 and \$38.45, respectively. Valley does not have the right to terminate the merger agreement or to resolicit the vote of its shareholders solely because of changes in the market price of Heritage common stock.

Heritage common stock could decline in value after the merger. For example, during the twelve-month period ending on May 15, 2013 (the most recent practicable date before the printing of this proxy statement/prospectus), the closing price of Heritage common stock varied from a low of \$13.25 to a high of \$15.50 and ended that period at \$13.92. The market value of Heritage common stock fluctuates based upon a variety of factors, including general market and economic conditions, Heritage's business and prospects and other factors, many of which are beyond Heritage's control.

The merger consideration to be received by Valley's shareholders is subject to a maximum and minimum value.

If the Heritage average closing price (which means the volume weighted average price of Heritage common stock for the twenty trading day period commencing on the twenty-fifth day prior to closing) is equal to or greater than \$17.19 per share, then the exchange ratio will adjust and the merger consideration will be \$42.90 per share of which \$19.50 will be paid in cash and the exchange ratio will be adjusted by dividing \$23.3973 by the Heritage average closing price. If Heritage's average closing price is less than \$11.46, and Heritage does not elect to terminate the merger agreement, then Heritage has the right to either fix the exchange ratio at 1.3611 and pay the balance of the merger consideration in cash or adjust the exchange ratio above 1.3611 provided that at least \$19.50 of the merger consideration is paid in cash and in either case the total merger consideration is \$35.10 per share based on the Heritage average closing price.

Valley's shareholders will have less influence as shareholders of Heritage than as shareholders of Valley.

Valley's shareholders currently have the right to vote in the election of the board of directors of Valley and on other matters affecting Valley. Following the merger, the shareholders of Valley as a group will own approximately 4% of Heritage. When the merger occurs, each Valley shareholder, other than those that exercise dissenters' rights, will become a shareholder of Heritage with a percentage ownership of the combined organization much smaller than such shareholder's percentage ownership of Valley. Because of this, Valley's shareholders will have less influence on the management and policies of Heritage than they now have on the management and policies of Valley.

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The fairness opinion obtained by Valley from its financial advisor will not reflect changes in circumstances subsequent to the date of the fairness opinion.

MWR, Valley's financial advisor in connection with the merger, has delivered to the board of directors of Valley its opinion dated as of March 11, 2013. The opinion of MWR stated that as of such date, and based upon and subject to the factors and assumptions set forth therein, the merger consideration to be paid to the holders of the outstanding shares of Valley common stock pursuant to the merger agreement was fair from a financial point of view to such holders. The opinion does not reflect changes that may occur or may have occurred after the date of the opinion, including changes to the operations and prospects of Heritage or Valley, changes in general market and economic conditions or regulatory or other factors. Any such changes, or changes in other factors on which the opinion is based, may materially alter or affect the relative values of Heritage and Valley. The fairness opinion will be updated as of the date of the mailing of the proxy statement.

Valley will be subject to business uncertainties and contractual restrictions while the merger is pending.

Heritage and Valley have operated and, until the completion of the merger, will continue to operate, independently. Uncertainty about the effect of the merger on employees and customers may have an adverse effect on Valley and consequently on Heritage. These uncertainties may impair Valley's ability to attract, retain or motivate key personnel until the merger is consummated, and could cause customers and others that deal with Valley to seek to change existing business relationships with Valley. Retention of certain employees may be challenging during the pendency of the merger, as certain employees may experience uncertainty about their future roles with Heritage. If key employees depart because of issues relating to the uncertainty and difficulty of integration or a desire not to remain with Heritage, Heritage's business following the merger could be harmed. In addition, the merger agreement restricts Valley from making certain acquisitions and taking other specified actions until the merger occurs without the consent of Heritage. These restrictions may prevent Valley from pursuing attractive business opportunities that may arise prior to the completion of the merger. Please see the section entitled "The Merger Agreement Conduct of Business Pending the Merger" of this proxy statement/prospectus for a description of the restrictive covenants to which Valley is subject.

Heritage may fail to realize all of the anticipated benefits of the merger.

The success of the merger will depend on, among other things, Heritage's ability to realize anticipated cost savings and to combine the businesses of Heritage and Valley in a manner that does not materially disrupt the existing customer relationships of our companies or result in decreased revenues from our customers. If Heritage is not able to successfully achieve these objectives, the anticipated benefits of the merger may not be realized fully, if at all, or may take longer to realize than expected.

It is possible that the integration process could result in the loss of key employees, the disruption of each company's ongoing businesses or inconsistencies in standards, controls, procedures and policies that adversely affect our ability to maintain relationships with clients, customers, depositors and employees or to achieve the anticipated benefits of the merger. Integration efforts between the two companies will also divert management attention and resources. These integration matters could have an adverse effect on each of Heritage and Valley during the transition period and on the combined company following completion of the merger.

The value of Heritage common stock after the merger may be affected by factors different from those currently affecting the values of Heritage common stock or Valley common stock.

The businesses of Heritage and Valley differ in some respects and, accordingly, the results of operations of the combined company and the market value of the combined company's common stock may be affected by factors different from those currently affecting the independent results of operations of each of Heritage or Valley.

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The termination fee and the restrictions on solicitation contained in the merger agreement may discourage others from trying to acquire Valley.

Until the completion of the merger, with some exceptions, Valley is prohibited from soliciting, initiating, encouraging or participating in any discussion of or otherwise considering any inquiries or proposals that may lead to an acquisition proposal, such as a merger or other business combination transaction, with any person other than Heritage. In addition, Valley has agreed to pay a termination fee to Heritage in specified circumstances. These provisions could discourage other companies from trying to acquire Valley even though those other companies might be willing to offer greater value to Valley's shareholders than Heritage has offered in the merger. The payment of the termination fee could also have an adverse effect on Valley's financial condition. See [The Merger Agreement Third Party Proposals](#) and [The Merger Agreement Termination of the Merger Agreement](#).

Valley's executive officers and directors have financial interests in the merger that are different from, or in addition to, the interests of Valley shareholders.

Executive officers of Valley negotiated the terms of the merger agreement with Heritage, and Valley's board of directors unanimously approved and recommended that Valley shareholders vote to approve the merger agreement. In considering these facts and the other information contained in this proxy statement/prospectus, you should be aware that certain Valley executive officers and directors have financial interests in the merger that are different from, or in addition to, the interests of Valley's shareholders generally. These interests include the following:

One executive officer holds Valley stock options that will be cancelled prior to the completion of the merger and he will receive a cash payment to the extent the options are then in-the-money;

David H. Brown, the current President and Chief Executive Officer of Valley, will receive a payment of \$579,928 to terminate his Supplemental Retirement Benefit Agreement and a \$240,089 severance payment to terminate his Executive Severance Agreement;

Joseph E. Riordan, the current Executive Vice President and Chief Financial Officer of Valley, will receive a payment of \$166,214 to terminate his Supplemental Retirement Benefit Agreement and a \$232,183 severance payment to terminate his Executive Severance Agreement;

David H. Brown, a director of Valley, will be added to the Heritage board and the Heritage Bank board; and

Valley's directors and executive officers will be entitled to indemnification by Heritage with respect to claims arising from matters occurring at or prior to the effective time of the merger and to coverage under a directors' and officers' liability insurance policy for up to six years after the merger.

See [The Merger Interests of Valley Executive Officers and Directors in the Merger](#) for information about these financial interests.

The merger is subject to the receipt of consents and approvals from regulatory authorities that may impose conditions that could have an adverse effect on Heritage.

Before the merger can be completed, various approvals or consents must be obtained from bank regulatory authorities. These authorities may impose conditions on the completion of the merger or require changes to the terms of the merger. While Heritage and Valley do not currently expect that any such conditions or changes will be imposed, there can be no assurance that they will not be, and such conditions or changes could have the effect of delaying completion of the merger or imposing additional costs on or limiting the revenues of Heritage following the merger, any of which might have an adverse effect on Heritage following the merger. Heritage is not obligated to complete the merger if the regulatory approvals received in connection with the completion of the merger impose any unduly burdensome condition upon Heritage following the merger or Heritage Bank following the bank merger. See [The Merger Agreement Conditions to Completion of the Merger](#).

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The merger is subject to closing conditions, including Valley shareholder approval that, if not satisfied or waived, will result in the merger not being completed, which may result in material adverse consequences to Valley's business and operations.

The merger is subject to closing conditions, including the approval of Valley shareholders that, if not satisfied, will prevent the merger from being completed. All directors of Valley have agreed to vote their shares of Valley common stock in favor of the merger. If Valley's shareholders do not adopt the merger agreement and the merger is not completed, the resulting failure of the merger could have a material adverse impact on Valley's business and operations. In addition to the required approvals and consents from governmental entities and the approval of Valley shareholders, the merger is subject to other conditions beyond Heritage's and Valley's control that may prevent, delay or otherwise materially adversely affect its completion. Neither Heritage nor Valley can predict whether and when these other conditions will be satisfied. See "The Merger Agreement - Conditions to Completion of the Merger."

Heritage has various provisions in its articles of incorporation that could impede a takeover of Heritage.

Provisions in Heritage's articles of incorporation and bylaws, the corporate law of the State of Washington and federal regulations could delay, defer or prevent a third party from acquiring Heritage, despite the possible benefit to Heritage's shareholders. These provisions include: limitations on voting rights of beneficial owners of more than 10% of our common stock; supermajority voting requirements for certain business combinations with any person who owns 20% or more of our outstanding common stock; the ability to issue blank check preferred stock, advance notice requirements for nominations for election to our board of directors; a requirement that only directors may fill a vacancy in our board of directors; supermajority voting requirements to remove any of our directors. Although these provisions were not adopted for the express purpose of preventing or impeding the takeover of Heritage without the approval of the Heritage board of directors, such provisions may have that effect. Such provisions may prevent former Valley shareholders who hold shares of Heritage common stock after the merger from taking part in a transaction in which such shareholders could realize a premium over the current market price of Heritage common stock. See "Comparison of Shareholder Rights."

Risk Factors Relating to Heritage and Heritage's Business.

Heritage is, and will continue to be, subject to the risks described in Heritage's Annual Report on Form 10-K for the fiscal year ended December 31, 2012, as updated by subsequent Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, all of which are filed with the SEC and incorporated by reference into this proxy statement/prospectus. See "Where You Can Find More Information" included elsewhere in this proxy statement/prospectus.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This proxy statement/prospectus contains or incorporates by reference a number of forward-looking statements regarding the financial condition, results of operations, earnings outlook and business prospects of Heritage, Valley and the potential combined company and may include statements for the period following the completion of the merger. You can find many of these statements by looking for words such as "expects," "projects," "anticipates," "believes," "intends," "estimates," "strategy," "plan," "potential," "possible" and other similar expressions. Statements about timing, completion and effects of the merger and all other statements in this proxy statement/prospectus or in the documents incorporated by reference in this proxy statement/prospectus other than historical facts constitute forward-looking statements.

Forward-looking statements involve certain risks and uncertainties. The ability of either Heritage or Valley to predict results or actual effects of its plans and strategies, or those of the combined company, is inherently uncertain. Accordingly, actual results may differ materially from those expressed in, or implied by, the forward-

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looking statements. Some of the factors that may cause actual results or earnings to differ materially from those contemplated by the forward-looking statements include, but are not limited to, those discussed under Risk Factors and those discussed in the filings of Heritage that are incorporated into this proxy statement/prospectus by reference, as well as the following:

the expected cost savings, synergies and other financial benefits from the merger might not be realized within the expected time frames or at all and costs or difficulties relating to integration matters might be greater than expected;

the requisite regulatory approvals for the merger and bank merger and/or the approval of the merger agreement by the shareholders of Valley might not be obtained or other conditions to completion of the merger set forth in the merger agreement might not be satisfied or waived;

the credit risks of lending activities, including changes in the level and trend of loan delinquencies and write-offs and changes in our allowance for loan losses and provision for loan losses that may be impacted by deterioration in the housing and commercial real estate markets, which may lead to increased losses and non-performing assets in the loan portfolio, and may result in the allowance for loan losses not being adequate to cover actual losses, and require increases to the allowance for loan losses;

changes in general economic conditions, either nationally or in our market areas;

changes in the levels of general interest rates, and the relative differences between short and long term interest rates, deposit interest rates, net interest margin and funding sources;

risks related to acquiring assets in or entering markets in which Heritage has not previously operated and may not be familiar;

fluctuations in the demand for loans, the number of unsold homes and other properties and fluctuations in real estate values in our market areas;

results of examinations by bank regulators or other regulatory authorities, including the possibility that any such regulatory authority may, among other things, require increases to the allowance for loan losses, the write-down of assets, or a change in regulatory capital position of our banks or affect the ability of our banks to borrow funds or maintain or increase deposits, which could adversely affect liquidity and earnings;

legislative or regulatory changes, including changes in regulatory policies and principles, or the interpretation of regulatory capital or other rules as a result of Basel III;

the ability to control operating costs and expenses

the impact of the Dodd-Frank Wall Street Reform and Consumer Protection Act and implementing regulations;

increases in premiums for deposit insurance;

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the use of estimates in determining fair value of certain assets, which estimates may prove to be incorrect and result in significant declines in valuation;

difficulties in reducing risk associated with the loans;

staffing fluctuations in response to product demand or the implementation of corporate strategies that affect the workforce and potential associated changes;

failure or security breach of computer systems on which we depend;

the ability to retain key members of the senior management team;

costs and effects of litigation, including settlements and judgments;

the ability to implement an expansion strategy of pursuing acquisitions and de novo branching;

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increased competitive pressures among financial service companies;

changes in consumer spending, borrowing and savings habits;

the availability of resources to address changes in laws, rules, or regulations or to respond to regulatory actions;

adverse changes in the securities markets;

inability of key third-party providers to perform their obligations;

changes in accounting policies and practices, as may be adopted by the financial institution regulatory agencies or the Financial Accounting Standards Board, including additional guidance and interpretation on accounting issues and details of the implementation of new accounting methods; and

Heritage's ability to successfully integrate any assets, liabilities, customers, systems, and management personnel it may in the future acquire into its operations and its ability to realize related revenue synergies and cost savings within expected time frames and any goodwill charges related thereto;

Because these forward-looking statements are subject to assumptions and uncertainties, Heritage's and Valley's actual results may differ materially from those expressed or implied by these forward-looking statements. You are cautioned not to place undue reliance on these statements, which speak only as of the date of this proxy statement/prospectus or the date of any document incorporated by reference in this proxy statement/prospectus.

All subsequent written and oral forward-looking statements concerning the merger or other matters addressed in this proxy statement/prospectus and attributable to Heritage or Valley or any person acting on their behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. Heritage and Valley undertake no obligation to update these forward-looking statements to reflect events or circumstances after the date of this proxy statement/prospectus or to reflect the occurrence of unanticipated events, unless obligated to do so under the federal securities laws.

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**SELECTED HISTORICAL FINANCIAL INFORMATION OF HERITAGE
AND COMPARATIVE UNAUDITED PER SHARE DATA**

Selected Historical Financial Information of Heritage

The following selected financial information is intended to help you in understanding certain financial aspects of the merger. The tables on the following pages present selected historical financial data for Heritage. The annual historical information for Heritage is derived from its audited consolidated financial statements as of and for each of the years ended December 31, 2008 through 2012. The information is only a summary and should be read with Heritage's historical consolidated financial statements and related notes. Heritage's audited consolidated financial statements as of December 31, 2012 and 2011 and for the years ended December 31, 2012, 2011 and 2010 are contained in its Annual Report on Form 10-K for the year ended December 31, 2012 filed with the SEC. The consolidated financial information as of and for the quarter ended March 31, 2013 and 2012 is derived from Heritage's unaudited consolidated financial statements which are included in Heritage's Quarterly Reports on Form 10-Q for the quarter ended March 31, 2013 and 2012 incorporated by reference into this proxy statement and which, in Heritage's opinion, include all adjustments (consisting of normal, recurring adjustments) necessary for a fair statement of Heritage's financial position and results of operations for such periods. See "Where You Can Find More Information" on page 58.

The historical results set forth below and elsewhere in this proxy statement/prospectus are not necessarily indicative of the future performance of Heritage.

	Quarter Ended		Year Ended December 31,				2008
	2013	2012	2012	2011	2010	2009	
	(Dollars in thousands, except per share amounts)						
Operations Data:							
Interest income	\$ 17,484	\$ 17,989	\$ 69,109	\$ 74,120	\$ 59,522	\$ 53,341	\$ 56,948
Interest expense	946	1,295	4,534	6,582	8,511	11,645	18,606
Net interest income	16,538	16,694	64,575	67,538	51,011	41,696	38,342
Provision for loan losses	858	(109)	2,016	14,430	11,990	19,390	7,420
Noninterest income	2,282	1,908	7,272	5,746	18,779	5,988	6,358
Noninterest expense	13,719	12,598	50,392	49,703	38,011	28,216	27,953
Income tax expense (benefit)	1,358	1,943	6,178	2,633	6,435	(503)	2,976
Net income	2,885	4,170	13,261	6,518	13,354	581	6,351
Net income (loss) applicable to common shareholders	2,885	4,170	13,261	6,518	11,668	(739)	6,208
Earnings (loss) per common share(1)							
Basic	0.19	0.27	0.87	0.42	1.05	(0.10)	0.93
Diluted	0.19	0.27	0.87	0.42	1.04	(0.10)	0.93
Dividend payout ratio to common shareholders(2)	42.1%	22.2%	92.0%	90.5%		(100.0)%	60.2%
Performance Ratios:							
Net interest spread (annualized)(3)	5.07%	5.20%	5.03%	5.23%	4.56%	4.25%	4.11%
Net interest margin (annualized)(4)	5.19%	5.35%	5.17%	5.41%	4.78%	4.57%	4.59%
Efficiency ratio(5)	72.90%	67.72%	70.14%	67.82%	54.46%	59.17%	62.53%
Return on average assets (annualized)	0.83%	1.24%	0.98%	0.48%	1.16%	0.06%	0.71%
Return on average common equity (annualized)	5.83%	8.19%	6.52%	3.17%	8.15%	(0.72)%	6.98%

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	March 31,		December 31,				
	2013	2012	2012	2011	2010	2009	2008
	(Dollars in thousands)						
Balance Sheet Data:							
Total assets	\$ 1,447,080	\$ 1,374,864	\$ 1,345,540	\$ 1,368,985	\$ 1,367,684	\$ 1,014,859	\$ 946,145
Originated loans receivable, net	869,199	814,783	855,360	815,607	719,957	746,083	793,303
Purchased covered loans receivable, net	81,375	100,498	83,978	105,394	128,715		
Purchased noncovered loans receivable, net	104,916	75,606	59,006	83,479	131,049		
Loans receivable, net	1,055,490	990,887	998,344	1,004,480	979,721	746,083	793,303
Loans held for sale	729	1,118	1,676	1,828	764	825	304
FDIC indemnification asset	5,353	8,921	7,100	10,350	16,071		
Deposits	1,225,112	1,139,537	1,117,971	1,136,044	1,136,276	840,128	824,480
Securities sold under agreement to repurchase	12,029	20,786	16,021	23,091	19,027	10,440	
Stockholders' equity	200,508	205,662	198,938	202,520	202,279	158,498	113,147
Book value per common share	13.24	13.29	13.16	13.10	12.99	12.21	13.40
Equity to assets ratio	13.9%	15.0%	14.8%	14.8%	14.8%	15.6%	12.0%
Capital Ratios:							
Total risk-based capital ratio	19.1%	21.2%	19.9%	20.3%	21.5%	20.7%	13.7%
Tier 1 risk-based capital ratio	17.8%	19.9%	18.7%	19.0%	20.2%	19.4%	12.5%
Leverage ratio	13.3%	14.1%	13.6%	13.8%	13.9%	14.6%	11.0%
Asset Quality Ratios:							
Nonperforming originated loans to total originated loans(6)	1.34%	1.88%	1.28%	2.57%	3.14%	4.21%	0.42%
Allowance for loan losses on originated loans to total originated loans	2.02%	2.69%	2.19%	2.66%	2.97%	3.38%	1.91%
Allowance for loan losses on originated loans to nonperforming originated loans(6)	151.00%	143.11%	170.44%	103.52%	94.73%	79.34%	454.02%
Nonperforming originated assets to total originated assets(6)	1.33%	1.95%	1.39%	2.14%	2.38%	3.32%	0.57%
Other Data:							
Number of banking offices	34	33	33	33	31	20	20
Number of full-time equivalent employees	349	353	363	354	321	222	217

- (1) Effective January 1, 2009, Heritage adopted FASB ASC 03-6-1. Earnings per share data for the prior periods have been revised to reflect the retrospective adoption of the FASB ASC.
- (2) Dividend payout ratio is declared dividends per common share divided by basic earnings (loss) per common share.
- (3) Net interest spread is the difference between the average yield on interest earning assets and the average cost of net interest bearing liabilities.
- (4) Net interest margin is net interest income divided by average interest earning assets.
- (5) The efficiency ratio is recurring noninterest expense divided by the sum of net interest income and noninterest income.
- (6) Nonperforming originated loan balances exclude portions guaranteed by governmental agencies of \$1.8 million, \$2.4 million, \$1.2 million, \$1.8 million, \$3.2 million and \$2.3 million as of March 31, 2013, March 31, 2012, December 31, 2012, 2011, 2010 and 2009, respectively. There were no governmental guarantees on nonperforming originated loans as of December 31, 2008.

Comparative Unaudited Pro Forma Per Share Data

The table below sets forth the book value per common share, cash dividends per common share, and basic and diluted earnings per common share data for each of Heritage and Valley on a historical basis, for Heritage on a pro forma combined basis and on a pro forma combined basis for Valley equivalent shares. The Pro Forma Valley Equivalent Shares data shows the effect of the merger from the perspective of an owner of Valley common stock. The pro forma combined and pro forma per equivalent shares information give effect to the merger as if the merger had been effective on the dates presented in the case of the book value per common share

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data, and as if the merger had been effective as of January 1, 2012, in the case of the cash dividends paid per common share and earnings (loss) per common share data. The pro forma data combine the historical results of Valley into Heritage's consolidated statement of income and, while certain adjustments were made for the estimated impact of certain fair value adjustments and other merger-related activity, they are not indicative of what could have occurred had the merger taken place on January 1, 2012.

The pro forma financial information in the table below is provided for illustrative purposes, does not include any projected cost savings, revenue enhancements or other possible financial benefits of the merger to the combined company and does not attempt to suggest or predict future results. This information also does not necessarily reflect what the historical financial condition or results of operations of the combined company would have been had Heritage and Valley been combined as of the dates and for the periods shown.

	Heritage Historical	Valley Historical	Pro Forma Combined Amounts for Heritage	Pro Forma Valley Equivalent Shares(1)
Book value per common share:(2)				
December 31, 2012	\$ 13.16	\$ 26.72	\$ 13.27	\$ 36.11
March 31, 2013	\$ 13.24	\$ 27.03	\$ 13.34	\$ 36.30
Cash dividends paid per common share:				
Year ended December 31, 2012(3)	\$ 0.80	\$ 2.00	\$ 0.87	\$ 2.36
Three months ended March 31, 2013	\$ 0.08	\$	\$ 0.07	\$ 0.20
Basic and diluted earnings per common share:				
Year ended December 31, 2012(4)	\$ 0.87	\$ 1.60	\$ 0.90	\$ 2.45
Three months ended March 31, 2013	\$ 0.19	\$ 0.42	\$ 0.20	\$ 0.55

- (1) Calculated by multiplying the Pro Forma Combined Amounts for Heritage by 2.72.
- (2) Calculated by dividing the total pro forma combined Heritage and Valley equity by total pro forma combined common shares outstanding at the end of the period.
- (3) Represents the historical cash dividends per share paid by Heritage and Valley for the period. Also includes a special dividend of \$1.00 per share that Valley paid in December 2012 in addition to the regular \$1.00 per share dividend.
- (4) Pro forma earnings per common share are based on pro forma combined net income and pro forma combined weighted average shares outstanding during the period.

Table of Contents**STOCK PRICE AND DIVIDEND INFORMATION**

Heritage. Heritage common stock is traded on the NASDAQ Global Select Market under the symbol HFWA. Valley common stock is not listed or traded on any established securities exchange or quotation system. The following table sets forth the reported high and low sales prices of shares of Heritage common stock, and the quarterly cash dividends per share of Heritage common stock declared, in each case for the periods indicated. The high and low sales prices are based on intraday sales for the periods reported.

	High	Heritage Common Stock Low	Dividends
2013			
Second Quarter (through May 15, 2013)	\$ 14.45	\$ 13.25	\$ 0.08
First Quarter	14.56	14.25	0.08
2012			
Fourth Quarter	15.23	13.50	0.38(1)
Third Quarter	15.57	13.44	0.08
Second Quarter	14.65	12.37	0.28(1)
First Quarter	14.56	12.25	0.06
2011			
Fourth Quarter	13.57	10.24	0.30(1)
Third Quarter	13.15	10.20	0.05
Second Quarter	14.86	12.53	0.03
First Quarter	15.12	13.50	

(1) Special Dividends were paid as follows: \$0.30 Fourth Quarter 2012, \$0.20 Second Quarter 2012 and \$0.25 Fourth Quarter 2011. The holders of Heritage common stock receive dividends if and when declared by the Heritage board of directors out of legally available funds. The declaration and payment of dividends depends upon business conditions, operating results, capital and reserve requirements, regulatory limitations and consideration by the Heritage board of directors of other relevant factors.

As a bank holding company, Heritage's ability to pay dividends is subject to the guidelines of the Federal Reserve Board regarding capital adequacy and dividends. The Federal Reserve Board's policy is that a bank holding company should pay cash dividends only to the extent that its net income for the past year is sufficient to cover both the cash dividends and a rate of earnings retention that is consistent with the holding company's capital needs, asset quality and overall financial condition, and that it is inappropriate for a bank holding company experiencing serious financial problems to borrow funds to pay dividends. Under Washington law, Heritage is prohibited from paying a dividend if, after making such dividend payment, Heritage would be unable to pay its debts as they become due in the usual course of business, or if its total liabilities, plus the amount that would be needed, in the event it were to be dissolved at the time of the dividend payment, to satisfy preferential rights on dissolution of holders of preferred stock ranking senior in right of payment to the capital stock on which the applicable distribution is to be made would exceed its total assets.

The primary source for dividends paid to Heritage shareholders is dividends paid to it from Heritage Bank. There are regulatory restrictions on the ability of Heritage Bank to pay dividends. Under federal regulations, the dollar amount of dividends Heritage Bank may pay depends upon its capital position and recent net income. Generally, if Heritage Bank satisfies its regulatory capital requirements, it may make dividend payments up to the limits prescribed under state law and FDIC regulations.

As of May 15, 2013, the 15,149,730 outstanding shares of Heritage common stock were owned by approximately 1,093 record owners.

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Valley. Valley common stock is not listed or traded on any established securities exchange or quotation system. Valley paid a cash dividend of \$2.00 per share in the year ended December 31, 2012. This consisted of a \$1.00 per share regular cash dividend and a \$1.00 per share special cash dividend. Valley paid a regular cash dividend of \$1.00 per share in the year ended December 31, 2011. The holders of Valley common stock receive dividends if and when declared by the Valley board of directors out of legally available funds. The merger agreement precludes Valley from making any additional dividend payments to shareholders.

As of March 31, 2013, the outstanding shares of Valley common stock were owned by approximately 333 record owners.

INFORMATION ABOUT THE SPECIAL MEETING OF VALLEY SHAREHOLDERS

This section contains information about the special meeting that Valley has called to allow its shareholders to vote on the approval of the merger agreement. The Valley board of directors is mailing this proxy statement/prospectus to you, as a Valley shareholder, on or about May 23, 2013. Together with this proxy statement/prospectus, the Valley board is also sending to you a notice of the special meeting of Valley shareholders and a form of proxy that the Valley board is soliciting for use at the special meeting and at any adjournments or postponements of the special meeting.

Time, Date, and Place

The special meeting is scheduled to be held on June 27, 2013 at 10:30 a.m., local time, at the Georgian Room of the Best Western Park Plaza Hotel, 620 South Hill Park Drive, Puyallup, Washington.

Matters to be Considered at the Meeting

At the special meeting, Valley shareholders will be asked to consider and vote upon:

a proposal to approve the merger agreement;

any proposal of the Valley board of directors to adjourn or postpone the special meeting, if necessary, to permit further solicitation of proxies if there are not sufficient votes at the time of the special meeting to approve the merger agreement; and

any other matters properly brought before the special meeting or any adjournment or postponement of the special meeting.

At this time, the Valley board of directors is unaware of any other matters that may be presented for action at the special meeting. If any other matters are properly presented, however, and you have completed, signed and submitted your proxy, the person(s) named as proxy will have the authority to vote your shares in accordance with his or her judgment with respect to such matters. A copy of the merger agreement is included in this proxy statement/prospectus as **Appendix A**, and we encourage you to read it carefully in its entirety.

Recommendation of the Valley Board of Directors

The Valley board of directors unanimously recommends that Valley shareholders vote **FOR** approval of the merger agreement and **FOR** approval of any proposal of the Valley board of directors to adjourn or postpone the special meeting, if necessary, to permit further solicitation of proxies if there are not sufficient votes at the time of the special meeting to approve the merger agreement. See **The Merger Valley's Reasons for the Merger; Recommendation of Valley's Board of Directors** for a more detailed discussion of the Valley board of directors' recommendation.

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Record Date and Quorum

May 15, 2013 has been fixed as the record date for the determination of the Valley shareholders entitled to notice of, and to vote at, the special meeting and any adjournment or postponement thereof. At the close of business on the record date, there were 1,126,613 shares of Valley common stock outstanding and entitled to vote at the special meeting, held by 340 holders of record.

A quorum is necessary to transact business at the special meeting. The presence, in person or by proxy, of the holders of a majority of the outstanding shares of Valley common stock entitled to vote at the special meeting is necessary to constitute a quorum. Shares of Valley common stock represented at the special meeting but not voted, including shares that a shareholder abstains from voting and shares held in street name with a bank, broker or other nominee for which a shareholder does not provide voting instructions, will be counted for purposes of establishing a quorum. Once a share of common stock is represented at the special meeting, it will be counted for the purpose of determining a quorum not only at the special meeting but also at any adjournment or postponement of the special meeting. In the event that a quorum is not present at the special meeting, it is expected that the special meeting will be adjourned or postponed.

Required Vote

The affirmative vote of the holders of at least two-thirds of the outstanding shares of Valley common stock entitled to be cast at the special meeting is necessary to approve the merger agreement. With respect to the proposal to approve the merger agreement, you may vote FOR, AGAINST or ABSTAIN. If you vote to abstain or if you fail to vote, this will have the same effect as voting against approval of the merger agreement.

A proposal of the Valley board of directors to adjourn or postpone the special meeting, if necessary, to solicit additional proxies requires the affirmative vote of the holders of a majority of the shares of Valley common stock represented in person or by proxy at the special meeting. Abstentions on this proposal will have the same effect as voting against the proposal. A failure to vote on this proposal will have no effect on the outcome of the vote on this proposal.

Each share of Valley common stock you own as of the record date for the special meeting entitles you to one vote at the special meeting on all matters properly presented at the meeting.

How to Vote Shareholders of Record

Voting in Person. If you are a shareholder of record, you can vote in person by submitting a ballot at the special meeting. Nevertheless, we recommend that you vote by proxy as promptly as possible, even if you plan to attend the special meeting. This will ensure that your vote is received. If you attend the special meeting, you may vote by ballot, thereby canceling any proxy previously submitted.

Voting by Proxy. Your proxy card includes instructions on how to vote by mailing in the proxy card. If you choose to vote by proxy, please mark each proxy card you receive, sign and date it, and promptly return it in the envelope enclosed with the proxy card. If you sign and return your proxy without instruction on how to vote your shares, your shares will be voted FOR approval of the merger agreement and FOR approval of any proposal to adjourn or postpone the special meeting, if necessary. Please do not send in your Valley stock certificates with your proxy card. If the merger is completed, you will receive a separate letter of transmittal and instructions on how to surrender your Valley stock certificates for the merger consideration.

How to Vote Shares Held in Street Name

If your shares of Valley common stock are held through a bank, broker or other nominee, you are considered the beneficial owner of such shares held in street name. In such case, this proxy statement/

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prospectus has been forwarded to you by your bank, broker or other nominee, who is considered, with respect to such shares, the shareholder of record. As the beneficial owner, you have the right to direct your bank, broker or other nominee how to vote the shares by following the voting instructions that they have sent, or will send, to you. Without specific instructions from you, your bank, broker or other nominee is not empowered to vote your shares on the proposal to approve the merger agreement or any proposal of the Valley board of directors to adjourn or postpone the special meeting, if necessary. Not voting these shares will have the effect of voting against these proposals. Alternatively, if you are a beneficial owner and wish to vote in person at the special meeting, you must provide a proxy executed in your favor by your bank, broker or other nominee.

YOUR VOTE IS VERY IMPORTANT. WHETHER OR NOT YOU PLAN TO ATTEND THE SPECIAL MEETING IN PERSON, PLEASE MARK, SIGN AND DATE THE ENCLOSED PROXY CARD AND PROMPTLY RETURN IT IN THE ENCLOSED POSTAGE-PAID ENVELOPE. SHAREHOLDERS WHO ATTEND THE SPECIAL MEETING MAY REVOKE THEIR PROXIES BY VOTING IN PERSON.

Revocation of Proxies

You can revoke your proxy at any time before your shares are voted. If you are a shareholder of record, you can revoke your proxy by:

submitting another valid proxy bearing a later date;

attending the special meeting and voting your shares in person; or

delivering prior to the special meeting a written notice of revocation to Valley's corporate secretary.

Attendance at the special meeting will not, in and of itself, constitute revocation of a proxy.

If you hold your shares in street name with a bank, broker or other nominee, you must follow the directions you receive from your bank, broker or other nominee to change your vote. Your last vote will be the vote that is counted.

Shares Subject to Voting Agreements; Shares Held by Directors and Executive Officers

A total of 124,733 shares of Valley common stock, representing approximately 11.07% of the outstanding shares of Valley common stock entitled to vote at the special meeting, are subject to voting agreements between Heritage and certain of Valley's directors and executive officers (Kim A. Anardi, Ronald E. Claudon, William E. Fitchitt, David C. Hammernaster, David K. Hamry, Steven M. Harris, Roger L. Knutson, Thomas M. Pasquier, Charles E. Poe, David H. Brown and Joseph E. Riordan). The persons who entered into voting agreements have agreed to vote all shares over which they have voting power for approval of the merger agreement and to use their reasonable efforts to cause to be voted for approval of the merger agreement all shares over which their immediate family members have voting power. The 124,733 shares referred to above as being subject to voting agreements include shares as to which the persons who are parties to the voting agreements have direct voting power as well as shares as to which such persons are obligated to use their reasonable efforts to cause to be voted for approval of the merger agreement. Each person who entered into a voting agreement has further agreed not to sell or otherwise transfer any shares of Valley common stock until after the special meeting, other than a transfer to a charitable organization or to a lineal descendent or spouse (or to a trust or other entity established for the benefit of a lineal descendent or spouse), provided that the transferee agrees in writing to be bound by the voting agreement. The voting agreement does not impose any obligation to take any action or omit to take any action in the signing party's capacity as a member of the board or as an officer of Valley, and is entered into solely in such person's capacity as a Valley shareholder.

As of the record date, Valley's directors and executive officers and their affiliates beneficially owned and were entitled to vote, in the aggregate, a total of 124,733 shares of Valley common stock (excluding shares

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issuable upon the exercise of outstanding options), representing approximately 11.07% of the outstanding shares of Valley common stock entitled to vote at the special meeting. For more information about the beneficial ownership of Valley common stock by each greater than 5% beneficial owner of Valley common stock, each director and executive officer of Valley and all Valley directors and executive officers as a group, see The Companies Valley Security Ownership of Certain Beneficial Owners and Management.

Solicitation of Proxies

The proxy for the special meeting is being solicited on behalf of the board of directors of Valley. Valley will bear the entire cost of soliciting proxies from you. All other costs and expenses incurred in connection with the merger agreement and the transactions contemplated thereby are to be paid by the party incurring such expenses. Proxies will be solicited principally by mail, but may also be solicited by the directors, officers, and other employees of Valley in person or by telephone, facsimile or other means of electronic communication. Directors, officers, and employees will receive no compensation for these activities in addition to their regular compensation, but may be reimbursed for out-of-pocket expenses in connection with such solicitation.

Attending the Meeting

All holders of Valley common stock, including shareholders of record and shareholders who hold their shares in street name through banks, brokers or other nominees, are cordially invited to attend the special meeting. Shareholders of record can vote in person at the special meeting. If you are not a shareholder of record and would like to vote in person at the special meeting, you must present at the meeting a proxy executed in your favor by the record holder of your shares. In addition, you must bring a form of personal photo identification with you in order to be admitted at the special meeting. We reserve the right to refuse admittance to anyone without proper proof of share ownership or without proper photo identification. The use of cameras, sound recording equipment, communications devices or any similar equipment during the special meeting is prohibited without Valley's express written consent.

Adjournments and Postponements

Although it is not currently expected, the special meeting may be adjourned or postponed, including for the purpose of soliciting additional proxies, if there are insufficient votes at the time of the special meeting to approve the proposal to approve the merger agreement or if a quorum is not present at the special meeting. Other than an announcement to be made at the special meeting of the time, date and place of an adjourned meeting, an adjournment generally may be made without notice. Any adjournment or postponement of the special meeting for the purpose of soliciting additional proxies will allow the shareholders who have already sent in their proxies to revoke them at any time prior to their use at the special meeting as adjourned or postponed.

Questions and Additional Information

If you have more questions about the merger or how to submit your proxy or vote, or if you need additional copies of this proxy statement/prospectus or the enclosed proxy card or voting instructions, please call David H. Brown at (253) 848-2316.

THE MERGER

Background of the Merger

In December 2010, David Brown, President and Chief Executive Officer of Valley, met with McAdams Wright Ragen, Inc. (MWR), an investment banking firm, to discuss strategic alternatives for Valley. Prior to

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that time, management and the Board of Valley had explored strategic opportunities in Valley's market and surrounding area. Valley had been unable to find any attractive targets with a credit portfolio that met Valley's criteria. Valley was on the FDIC list as a possible acquirer of a troubled bank, but the only options were to acquire banks with serious credit issues. In each case, management and the Board felt the risks outweighed the opportunities.

On November 23, 2011, Mr. Brown asked MWR to meet with the Board of Directors to further discuss various strategic alternatives. Valley's profit margins were declining due to the lower interest rate environment and increased regulation, and, after discussion with MWR, the Board felt the alternatives were to (1) remain independent, reduce overhead and wait for the economy to improve, or (2) look for a strategic merger partner. In August 2012, MWR met a second time with the Valley Board of Directors and presented seven (7) possible strategic acquirers for Valley. Mr. Brown noted that he and Brian Vance, the Chief Executive Officer of Heritage, had had periodic conversations off and on regarding the possible merger of the two companies. Mr. Brown expressed his feeling that Heritage and Valley had similar credit cultures and would be a good strategic fit. The Board of Valley agreed that Mr. Brown should inquire with Mr. Vance whether Heritage would be interested in a merger. The Board preferred this approach to contacting a number of possible acquirers because of the strong strategic fit.

In early November 2012, Mr. Brown received an oral offer of \$36.00 per share from Heritage. The offer was immediately conveyed to the Board. Heritage had indicated they would consider a higher offer if they first had an opportunity to perform an on-site financial and asset due diligence review. The Board felt the offer was inadequate and suggested Mr. Brown and Joseph Riordan, Executive Vice President and Chief Financial Officer of Valley Bank, meet with MWR regarding whether to permit the on-site due diligence. After meeting with MWR, it was agreed to permit Heritage to perform on-site financial and asset quality due diligence over a weekend.

On December 8, 2012, Heritage brought in a team lead by Mr. Vance to Valley's main office to perform financial and asset quality due diligence. Mr. Vance met with Mr. Brown and Mr. Riordan to learn more about Valley's operations and procedures.

On December 10, 2012, Valley retained MWR to begin to build a Confidential Sale Memorandum to explain the unique aspects of Valley. On December 14, 2012, Mr. Vance and Mr. Jeffrey Deuel, Executive Vice President and Chief Operating Officer of Heritage, met at MWR's Seattle office with a representative of MWR and Mr. Brown and Mr. Riordan to discuss possible next steps. MWR shared the Confidential Sale Memorandum with Heritage at this time but did not share it with other potential acquirers upon counsel of the Valley management team and the Valley Board.

On December 28, 2012, after completing its due diligence, Heritage presented Valley with a written proposal to acquire all of the outstanding shares of common stock of Valley for \$36.50 per share, the consideration to be 50% cash and 50% common stock of Heritage. On January 8, 2013, an MWR representative, Mr. Brown and Mr. Riordan met with Mr. Vance and Mr. Deuel and Don Hinson, Executive Vice President and Chief Financial Officer of Heritage, to ask questions and perform a limited financial due diligence of Heritage. On January 10, 2013, the Valley Board met and decided to respond to Heritage's offer stating that the Heritage proposal was still insufficient, and if not increased, the Board would discontinue negotiations or seek other offers. At this meeting, MWR presented analysis of the earnings per share accretion mathematics for Heritage and four other potential acquirers. MWR discussed whether it was prudent to do a market check of what other potential acquirers might pay to acquire Valley. The Board elected to wait until further response was received from Heritage.

On January 22, 2013, Heritage presented Valley with a written proposal of \$38.00 per share, again 50% cash and 50% common stock of Heritage. The Valley Board met on January 23, 2013 to consider the \$38.00 per share offer. At this meeting, MWR presented the Board with analysis of the structures of a fixed exchange ratio and a

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fixed purchase price. The Board felt a fixed exchange ratio was more advantageous to Valley shareholders. The Board decided to respond with a \$39.00 per share counteroffer, 50% cash and 50% common stock, with the stock component determined on a fixed exchange ratio basis. To encourage Heritage to increase its offer to \$39.00, it was stated that if the Valley counteroffer was accepted by Heritage, it would be accepted by the Valley Board. MWR opined that a \$39.00 offer would be fair to the shareholders of Valley.

On January 28, 2013, Heritage responded with a term sheet at a price of \$39.00 per share, 50% cash and 50% common stock at a fixed exchange ratio. The Valley Board accepted the offer on January 29, 2013. After informing Heritage of the acceptance of the Valley Board, Heritage stated that it would begin constructing the merger agreement with its outside counsel and would conduct further due diligence with the assistance of the Valley management team. Legal negotiations ensued and continued until March 11, 2013. The specific formula for the exchange ratio between Valley and Heritage common stock, the upper and lower bounds of the collar, and other features of the merger were determined by negotiation during this time period.

Keller Rohrback distributed the draft merger agreement and other agreements with Valley's management team and MWR on March 7, 2013; the Valley Board received the merger agreement and other agreements shortly thereafter. On March 11, 2013, the Valley Board met again to review the merger agreement with Keller Rohrback and MWR. The Valley Board also received an oral fairness opinion from MWR which was subsequently confirmed in writing and discussed further questions or issues. The board of directors then voted unanimously to approve the merger.

On March 11, 2013, the board of directors of Heritage met to consider the merger agreement with Breyer & Associates PC and Keefe, Bruyette and Woods, Inc. Following the Heritage board of directors meeting, the parties jointly issued a press release announcing the merger on March 12, 2013.

Valley's Reasons for the Merger; Recommendation of Valley's Board of Directors

The Valley Board believes the merger is in the best interests of Valley and the Valley shareholders. The Valley Board unanimously recommends that Valley shareholders vote for the approval of the merger agreement and the consummation of the transactions contemplated by that agreement.

In reaching its determination to adopt the merger agreement, the Valley Board consulted with Valley's management and its financial and legal advisors, and considered a number of factors. Following is a description of each of the material factors that the Valley Board believes favor the merger:

the Valley Board's assessment, based in part on presentations by MWR, Valley's financial advisor, and its management and the results of the due diligence investigation of Heritage conducted by Valley's management and financial and legal advisors, of the business, operations, capital level, asset quality, financial condition and earnings of Heritage on an historical and a prospective basis, and of the combined company on a pro forma basis including anticipated cost savings;

the Valley Board's knowledge of Heritage's business, operations, financial condition, earnings, asset quality and prospects;

the financial and growth prospects for Valley and its shareholders of a business combination with Heritage as compared to continuing to operate as a stand-alone entity;

the information presented by MWR to the Valley Board with respect to the merger and the opinion of MWR that, as of the date of that opinion, the merger consideration was fair to the holders of Valley common stock from a financial point of view (see "Opinion of Valley's Financial Advisor" on page 28);

the benefits to Valley and its customers of operating as a larger organization, including enhancements in products and services, higher lending limits, and greater financial resources;

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the Valley Board's belief that the two companies share a common vision of the importance of customer service and local decision-making and that management and employees of Valley and Heritage possess complementary skills and expertise;

the current and prospective economic and competitive environment facing the financial services industry generally, and Valley in particular, including the continued rapid consolidation in the financial services industry and the competitive effects of the increased consolidation on smaller financial institutions such as Valley;

the increasing importance of operational scale and financial resources in maintaining efficiency and remaining competitive over the long term and in being able to capitalize on technological developments which significantly impact industry competitive conditions;

the expected social and economic impact of the merger on the constituencies served by Valley, including its borrowers, customers, depositors, employees, suppliers and communities;

the employee and severance benefits to be provided to Valley employees and career opportunities in a larger organization;

the fact that Heritage has existing resources to fund the cash portion of the merger consideration; and

the Valley Board's assessment, with the assistance of counsel, concerning the likelihood that Heritage would obtain all regulatory approvals required for the merger.

In the course of its deliberations regarding the merger, the Valley Board also considered the following information that the Valley Board determined did not outweigh the benefits to Valley and its shareholders expected to be generated by the merger:

the federal income tax consequences to Valley shareholders who receive cash in exchange for their shares of Valley common stock in the merger;

that the directors and officers of Valley have interests in the merger in addition to their interests generally as Valley shareholders (see [Interests of Valley Executive Officers and Directors in the Merger](#) on page 37); and

the effect of the termination fee in favor of Heritage and recognizing that the termination fee was a condition to Heritage entering into the merger agreement.

The foregoing discussion of the information considered by the Valley Board is not intended to be exhaustive but includes all of the material factors considered by the Valley Board. In the course of its deliberations with respect to the merger, the Valley Board discussed the anticipated impact of the merger on Valley, its shareholders, and its various other constituencies, and determined that the benefits to Valley and its constituencies expected to result from the merger would likely outweigh any disadvantages identified during the Board's deliberations. In reaching its determination to approve and recommend the merger, the Valley Board did not assign any relative or specific weights to the factors considered in reaching that determination, and individual directors may have given differing weights to different factors.

For the reasons set forth above, the Valley board of directors determined that the merger, the merger agreement and the transactions contemplated by the merger agreement are advisable and in the best interests of Valley's shareholders, and approved the merger agreement. The Valley board of directors unanimously recommends that the Valley shareholders vote FOR the approval of the merger agreement.

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Heritage's Reasons for the Merger

In reaching its decision to approve the merger agreement, the Heritage board of directors consulted with Heritage's management, as well as its financial and legal advisors, and considered a number of factors, including:

its knowledge of Heritage's business, operations, financial condition, earnings and prospects and of Valley's business, operations, financial condition, earnings and prospects, taking into account the results of Heritage's due diligence review of Valley;

its belief that Valley's business banking model and commercial and industrial lending platform will enable Heritage to expand significantly its commercial lending operations;

Valley's deposit mix, 24.4% of which was comprised of non-interest bearing deposits at December 31, 2012, compared with 22.1% for Heritage at the same date;

the fact that Valley would enable Heritage to expand its presence through nine additional bank offices in the south King County and eastern Pierce County regions of Washington State;

the fact that a director of Valley will serve as a director of Heritage upon completion of the merger;

the anticipated ability to retain other key management personnel of Valley;

the fact that Valley shareholders would own approximately 9.2% of the outstanding shares of the combined company immediately following the merger;

the financial and other terms and conditions of the merger agreement, including the right of Heritage to terminate the merger agreement if the Heritage average closing price is less than \$11.46, provisions designed to limit the ability of the Valley board of directors to entertain third party acquisition proposals and provisions providing for payment by Valley to Heritage of a termination fee if the merger agreement is terminated under certain circumstances;

the financial analyses presented by Keefe Bruyette & Woods, or KBW, Heritage's financial advisor, and the opinion dated as of March 11, 2013 delivered to the Heritage board of directors by KBW, to the effect that, as of that date, and subject to and based on the qualifications and assumptions set forth in the opinion, the aggregate merger consideration was fair, from a financial point of view, to Heritage; and

the regulatory and other approvals required in connection with the transaction and the likelihood such approvals would be received in a timely manner and without unacceptable conditions.

The foregoing discussion of the factors considered by the Heritage board of directors is not intended to be exhaustive, but rather includes the material factors considered by the Heritage board of directors. In reaching its decision to approve the merger agreement, the merger and the other transactions contemplated by the merger agreement, the Heritage board of directors did not quantify or assign any relative weights to the factors considered, and individual directors may have given different weights to different factors. The Heritage board of directors considered all these factors as a whole, including discussions with, and questioning of, Heritage management and Heritage's financial and legal advisors, and overall considered the factors to be favorable to, and to support, its determination.

Opinion of Valley's Financial Advisor

MWR has delivered a written opinion to the Valley Board to the effect that, as of the date of this proxy statement, the consideration to be received by Valley common shareholders pursuant to the terms of the merger agreement is fair to the Valley shareholders from a financial point of view. Through negotiations, Heritage and Valley determined the purchase price of \$39.00 for each share of Valley common stock. Based on the number of common shares and options outstanding for Valley as of January 31, 2013 and the 30-day average closing price of Heritage stock for the period of January 23, 2013 through March 3, 2013, the total purchase price is \$44,169,632 or \$39.00 per common share.

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The MWR Opinion is directed only to the fairness, from a financial point of view, of the consideration to be received and does not constitute a recommendation to any Valley shareholder as to how such shareholder should vote at the special meeting.

Valley retained MWR as its exclusive financial advisor on pursuant to an engagement letter dated December 9, 2012 in connection with the merger. MWR is a regionally recognized investment banking firm that is regularly engaged in the valuation of businesses and securities in connection with mergers and acquisitions. The Valley Board selected MWR to act as Valley's exclusive financial advisor based on MWR's experience in mergers and acquisitions and in securities valuation generally.

On March 11, 2013, MWR issued its opinion to the Valley Board that, in its opinion as investment bankers, the terms of the merger as provided in the merger agreement are fair, from a financial view point, to Valley and its shareholders. **The full text of the MWR Opinion Letter, which sets forth the assumptions made, matters considered, and limits on its review, is attached hereto as *Appendix B*. The summary of the MWR Opinion in this proxy statement/prospectus is qualified in its entirety by reference to the full text of such opinion. VALLEY SHAREHOLDERS ARE URGED TO READ THE ENTIRE MWR OPINION LETTER.**

In rendering its opinion to Valley, MWR reviewed, among other things, historical financial data of Heritage, including certain internal financial data and assumptions of Heritage prepared for financial planning and budgeting purposes furnished by the management of Heritage and, to the extent publicly available, the financial terms of certain change of control transactions involving community banks throughout the United States. MWR discussed with the management of Heritage the financial condition, current operating results, and business outlook for Heritage. MWR also reviewed certain publicly available information concerning Valley and certain financial and securities data of Valley. MWR discussed with Valley's management the financial condition, the current operating results, and business outlook for Valley. In rendering its opinion, MWR relied, without independent verification, on the accuracy and completeness of all financial and other information reviewed by it and did not attempt to verify or to make any independent evaluation or appraisal of the assets of Valley nor was it furnished any such appraisals. Valley did not impose any limitations on the scope of the MWR investigation in arriving at its opinion.

MWR analyzed the consideration on a fair market value basis using standard evaluation techniques (as discussed below) including the market approach (or comparable merger multiples), the income approach (or net present value analysis), and the cost approach (or net asset value analysis) based on certain assumptions of projected growth of earnings and dividends and a range of discount rates from 13% to 15%.

The Cost Approach is the net asset value or the net equity of a bank, including adjustments for every kind of property on the balance sheet that can be valued. This approach normally assumes the liquidation on the date of appraisal with the recognition of the investment securities gains or losses, real estate appreciation or depreciation, adjustments to the loan loss reserve, discounts to the loan portfolio and changes in the net value of other assets. As such, it is not the best evaluation approach when valuing a going concern because it is based on historical costs and varying accounting methods. Even if the assets and liabilities are adjusted to reflect prevailing market prices and yields (which is often of limited accuracy due to the lack of readily available data); it still results in a liquidation value. In addition, since this approach fails to account for the values attributable to the going concern such as the interrelationship among Valley's assets and liabilities, customer relations, market presence, image and reputation, staff expertise and depth, little weight is given by MWR to the net asset value approach to valuation.

Market Value is generally defined as the price, established on an arms-length basis, at which knowledgeable, unrelated buyers and sellers would agree. The hypothetical market value for a bank with a thin market for its common stock is normally determined by comparable change of control transactions using financial ratios such as the median price to stockholders equity, price to earnings, and price to total assets. The market value in connection with the evaluation of control of a bank is determined by previous sales of

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community banks in the United States. In valuing a business enterprise, when sufficient comparable transaction data is available, the market value approach deserves greater weighting than the net asset value approach and similar weight as the investment value approach as discussed below.

MWR maintains a comprehensive database concerning prices paid for banking institutions in the United States. This database provides comparable pricing and financial performance data for banking institutions sold or acquired. Organized by different peer groups, these data present medians of financial performance and purchase price levels, thereby facilitating a valid comparative purchase price analysis. In analyzing the transaction value of Valley, MWR has considered the market approach and has evaluated price to stockholders' equity, price to earnings multiples and the price to total assets percentage for three samples; sample one is forty-one Western U.S. whole bank transactions occurring in 2011-2013. Sample two is eight Western U.S. whole bank transactions, with seller banks' non-performing assets to total assets less than one and one-quarter percent, occurring in 2011-2013. Sample three is forty-two U.S. whole bank transactions, with seller banks' non-performing assets to total assets less than one and one-quarter percent, occurring in 2011-2013.

Comparable Sales Multiples. MWR calculated the estimated purchase price per share for these three samples for each purchase price ratio using the appropriate Valley financial data for the period ended January 31, 2013. This approach enables direct comparisons between the proposed Heritage-Valley transaction and the results of the three samples. The \$39.00 price per share for the proposed Heritage-Valley transaction is compared to these estimated purchase prices per share for the three samples. The results are shown below:

Sample One-41 Transactions		Sample Two-8 Transactions	
Financial Ratio	Price per share	Financial Ratio	Price per share
Price to Book Value	\$ 26.77	Price to Book Value	\$ 34.21
Price to Earnings	\$ 39.35	Price to Earnings	\$ 39.35
Price to Total Assets	\$ 21.98	Price to Total Assets	\$ 24.86

Sample Three-42 Transactions	
Financial Ratio	Price per share
Price to Book Value	\$ 35.30
Price to Earnings	\$ 33.26
Price to Total Assets	\$ 29.63

The results for sample one reflect data on all Western U.S. bank and thrift transactions from January 1, 2011 through January 31, 2013 year to date. There was no size limit on the transactions; the data were collected from FactSet. The proposed purchase price of \$39.00 is above sample one's price to book value and price to total assets ratios, but below the price to earnings ratio. Perhaps, a better comparison is sample two with bank mergers involving selling banks with non-performing assets to total asset ratios less than one and one-quarter percent. MWR believes that this is a better comparison because the sample of eight merger transactions involved banks with asset quality similar to Valley's asset quality. Similar to sample one, the proposed \$39.00 purchase price per share compares favorably with the price to book value and price to total asset ratios, but unfavorably with the price to earnings ratio. The results for sample three, which is a 42 transaction sample for bank mergers occurring in January 1, 2011 through January 31, 2013 with the selling banks having non-performing assets to total asset ratios below 1.25%, shows that the proposed purchase price of \$39.00 per share was above those calculated for the price to the book value, price to total assets, and price to earnings ratios. These results provide an indication of fairness.

The Income Approach is sometimes referred to as the net present value or earnings analysis. One investment value method frequently used estimates the present value of an institution's future earnings or cash flow that is discussed below.

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Net Present Value Analysis. The investment or earnings value of any banking organization's stock is an estimate of the present value of future benefits, usually earnings, dividends, or cash flow, which will accrue to the stock. An earnings value is calculated using an annual future earnings stream over a period of time of not less than five years and the residual or terminal value of the earnings stream after five years, using Valley's estimates of future growth and an appropriate capitalization or discount rate. MWR's calculations were based on an analysis of the banking industry, Valley's earnings estimates for 2013-2017, historical levels of growth and earnings, and the competitive situation in the market area of Valley. Using discount rates of 13% and 15%, acceptable discount rates considering the risk-return relationship most investors would demand for an investment of this type as of the valuation date, the Net Present Value of Future Earnings provided a range of \$23.44 to \$27.66 per share. The proposed purchase price of \$39.00 exceeds this range, providing another indicator of fairness.

Relative Contribution Analysis involves certain historical and estimated financial information for Valley and Heritage and the pro forma combined entity resulting from this transaction. The following table shows the percentage contributions of each company to the indicated values to the combined company.

Percentage of Combined	Heritage	Valley
Trailing 12 Months Net Income	88.0%	12.0%
Total Assets at 12-31-12	84.7%	15.3%
Total Deposits at 12-31-12	84.1%	15.9%
Stockholders' Equity at 12-31-12	86.9%	13.1%

The proposed transaction has Valley shareholders receiving 17.1% of Heritage's market capitalization based on the Heritage stock price at January 31, 2013. The percentage of stockholders' equity of 13.1% compares favorably with 17.1%. Using the 13.1% result to calculate a price per share value for Valley, the value is \$30.05 per share, a price that is lower than the \$39.00 per share that Heritage is offering Valley shareholders.

Earnings Per Share Accretion Analysis is the review of earnings per share calculations for the first year after the closing of the merger. Using the 2014 calculations for Valley and Heritage, estimates of the revenue enhancement and cost reductions that can reasonably be attained, information all provided by the management of Valley and Heritage, the comparison of stand-alone earnings per share and adjusted earnings per share shows that the adjusted earnings per share is \$0.117 (or 13.01%) higher than the expected earnings per share depending upon the assumptions made. In contrast with the Columbia Banking System, Inc. West Coast Bancorp merger which was announced in September 2012, the proposed Heritage-Valley merger EPS accretion of 13.01% compares favorably to the 2013E and 2014E accretion estimates of 20% and 33%, respectively. In other words, this other transaction has greater accretion estimates than the Heritage-Valley merger because either (1) the acquiring bank can increase earnings from the merger more rapidly than Heritage can with Valley and/or (2) the acquiring bank will pay a lower level of new shares of its common stock in the transaction than Heritage will pay with Valley.

When the cost, market value, and income approaches are subjectively weighed, using the appraiser's experience and judgment, it is MWR's opinion that the proposed transaction is fair, from a financial point of view to the Valley shareholders.

Pursuant to the terms of the engagement letter, Valley has agreed to pay MWR a fee of \$30,000 for rendering this fairness opinion and a completion fee for the successful completion of the Merger. In addition, Valley has agreed to reimburse MWR for its reasonable out-of-pocket expenses, including the fees and disbursements of its counsel, and to indemnify MWR against certain liabilities.

Material U.S. Federal Income Tax Consequences of the Merger

Subject to the limitations and qualifications described herein, the following discussion constitutes the opinion of Silver, Freedman & Taff, L.L.P. as to the material U.S. federal income tax consequences of the merger to holders of Valley common stock. This discussion is based on currently existing provisions of the Internal

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Revenue Code of 1986, as amended, or the Code, existing regulations thereunder (including final, temporary or proposed) and current administrative rulings and court decisions, all of which are subject to change. Any such change, which may or may not be retroactive, could alter the tax consequences described herein. The following discussion is intended only as a general summary of the material federal income tax consequences of the merger and is not a complete analysis or listing of all potential tax effects relevant to a decision on whether to vote in favor of approval of the merger.

This discussion applies only to U.S. holders (as defined below) of Valley common stock who hold their shares as a capital asset within the meaning of Section 1221 of the Code (generally, property held for investment). Further, the discussion does not address all aspects of federal income taxation that may be relevant to Valley shareholders in light of their particular circumstances or that may be applicable to them if they are subject to special treatment under the Code, including, without limitation, shareholders who are:

foreign persons or U.S. persons whose functional currency (as defined in the Code) is not the U.S. dollar;

financial institutions, mutual funds or insurance companies;

dealers in securities or foreign currencies or traders in securities who elect to apply a mark-to-market method of accounting;

tax-exempt organizations;

S corporations, partnerships or other pass-through entities;

Valley shareholders whose shares are qualified small business stock for purposes of Section 1202 of the Code or who may otherwise be subject to the alternative minimum tax provisions of the Code;

Valley shareholders who received their Valley common stock through the exercise of employee stock options or otherwise as compensation or through a tax-qualified retirement plan; or

Valley shareholders who hold their Valley common stock as part of a hedge, straddle, constructive sale, or conversion transaction. For purposes of this discussion, the term U.S. holder means a beneficial owner of Valley common stock that is for U.S. federal income tax purposes (1) an individual citizen or resident of the United States (including certain former citizens and former long-term residents), (2) a corporation, or entity treated as a corporation for U.S. federal income tax purposes, or created or organized in or under the laws of the United States or any state thereof or the District of Columbia, (3) a trust if (a) a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons as defined in Section 7701(a)(30) of the Code have the authority to control all substantial decisions of the trust or (b) such trust has a valid election in effect under applicable Treasury regulations to be treated as a U.S. person for U.S. federal income tax purposes or (4) an estate, the income of which is subject to U.S. federal income tax, regardless of its source.

The U.S. federal income tax consequences to a partner in an entity or arrangement treated as a partnership for U.S. federal income tax purposes that holds Valley common stock generally will depend on the status of the partner and the activities of the partnership. Partners in a partnership holding Valley common stock should consult their own tax advisors.

This discussion does not address the tax consequences of the merger under state, local or foreign tax laws. This discussion also does not address the tax consequences of any transaction other than the merger.

VALLEY SHAREHOLDERS ARE URGED TO CONSULT WITH THEIR OWN TAX ADVISORS AS TO THE TAX CONSEQUENCES OF THE MERGER IN THEIR PARTICULAR CIRCUMSTANCES, INCLUDING THE APPLICABILITY AND

EFFECTS OF U.S. FEDERAL (INCLUDING THE ALTERNATIVE MINIMUM TAX), STATE, LOCAL OR FOREIGN AND OTHER TAX LAWS AND OF CHANGES IN THOSE LAWS, AS WELL AS OF THE OWNERSHIP AND DISPOSITION OF THE SHARES OF HERITAGE COMMON STOCK RECEIVED IN THE MERGER.

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It is a condition to Valley's obligation to complete the merger that Valley receive an opinion of its counsel, Keller Rohrback L.L.P., and a copy of an opinion of Silver, Freedman & Taff, L.L.P., each to the effect that the merger will be treated for U.S. federal income tax purposes as a reorganization within the meaning of Section 368(a) of the Code and each dated as of the closing date of the merger. In addition, Silver, Freedman & Taff, L.L.P., has rendered an opinion, attached as Exhibit 8.1 to the Registration Statement on Form S-4 filed with the SEC of which this proxy statement/prospectus is a part, incorporating the discussion set forth in this section. In rendering its opinion filed as an exhibit to the Registration Statement, Silver, Freedman & Taff, L.L.P. relied upon, and in rendering their opinions to be delivered at the time of the completion of the merger, Silver, Freedman & Taff, L.L.P. and Keller Rohrback L.L.P. will rely upon, certain customary qualifications, assumptions and representations contained in letters and certificates from officers of Heritage and Valley. If any of the qualifications, assumptions or representations is inconsistent with the actual facts, the U.S. federal income tax consequences of the merger could be adversely affected.

None of the tax opinions given in connection with the merger or described herein will be binding on the Internal Revenue Service, or the IRS. Neither Heritage nor Valley intends to request any ruling from the IRS as to the U.S. federal income tax consequences of the merger. Consequently, no assurance can be given that the IRS will not assert, or that a court would not sustain, a position contrary to any of the tax consequences set forth below.

The merger is expected to qualify as a reorganization within the meaning of Section 368(a) of the Code, and each of Heritage and Valley is expected to be a party to a reorganization within the meaning of Section 368(b) of the Code. As a result, the following U.S. federal income tax consequences of the merger are expected to occur.

Tax Consequences of the Merger for Heritage and Valley. No gain or loss will be recognized by Heritage or Valley by reason of the merger.

Tax Consequences of the Merger for Holders of Valley Common Stock. Upon the exchange of shares of Valley common stock for a combination of Heritage common stock and cash (other than cash received in lieu of a fractional share of Heritage common stock (see discussion below under Cash Received in Lieu of Fractional Heritage Shares)), as described, a U.S. holder generally will recognize gain (but not loss) in an amount equal to the lesser of (1) the sum of the amount of cash and the fair market value of the Heritage common stock received, minus the adjusted tax basis of the Valley common stock surrendered in exchange therefor and (2) the amount of cash received by the holder. If a U.S. holder of Valley common stock acquired different blocks of Valley common stock at different times or different prices, the holder should consult its tax advisor regarding the manner in which gain should be recognized. Any recognized gain generally will be long-term capital gain if, as of the date the merger is completed, the U.S. holder's holding period with respect to the Valley common stock surrendered exceeds one year. Long-term capital gains of certain non-corporate U.S. holders, including individuals, are generally subject to U.S. federal income tax at preferential rates. The aggregate tax basis of the Heritage common stock received (including any fractional share deemed received and exchanged for cash) by a U.S. holder that exchanges its shares of Valley common stock for a combination of Heritage common stock and cash will be equal to the aggregate adjusted tax basis of the shares of Valley common stock surrendered, reduced by the amount of cash received by the holder (excluding any cash received in lieu of a fractional share of Heritage common stock) and increased by the amount of gain, if any, recognized by the holder (excluding any gain recognized with respect to cash received in lieu of a fractional share of Heritage common stock). The holding period of the Heritage common stock received (including any fractional share deemed received and exchanged for cash) will include the holding period of the Valley common stock surrendered.

Cash in Lieu of Fractional Heritage Shares. A holder of shares of Valley common stock receiving cash in lieu of a fractional share of Heritage common stock will be treated as having received a fractional Heritage share pursuant to the merger and then as having exchanged the fractional Heritage share for cash in a redemption by Heritage. Generally, this deemed redemption will be treated as a sale or exchange and the holder will recognize

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gain or loss equal to the difference between (i) the amount of cash received in lieu of the fractional Heritage share and (ii) the portion of the holder's aggregate adjusted tax basis in the shares of Valley common stock surrendered allocable to such fractional share. Such gain or loss generally will be long-term capital gain or loss if the holder's holding period for the Valley common stock exchanged by such holder for the fractional share is more than one year as of the date of the merger. The deductibility of capital losses may be subject to limitations.

Dissenting Shareholders. Holders of shares of Valley common stock who dissent with respect to the merger as discussed in Dissenters' Rights of Valley Shareholders and who receive cash in respect of their shares of Valley common stock will be treated as if the Heritage common stock had been received and then redeemed for cash by Heritage. A holder will generally recognize capital gain or loss equal to the difference between the amount of cash received and the holder's aggregate tax basis in the Valley shares. Any Valley shareholder that plans to exercise dissenter's rights in connection with the merger is urged to consult its own tax advisor to determine the relevant tax consequences.

Information Reporting and Backup Withholding. Valley shareholders may be subject to information reporting and backup withholding on any cash payments they receive in the merger (including cash in lieu of a fractional Heritage share). Any amount withheld under the backup withholding rules is not an additional tax and will be allowed as a refund or credit against a shareholder's U.S. federal income tax liability, provided that the required information is timely furnished to the IRS.

Valley shareholders, however, will not be subject to backup withholding, if they:

furnish a correct taxpayer identification number and certify that they are not subject to backup withholding on the IRS Form W-9 or the substitute Form W-9 included in the letter of transmittal they will receive from the exchange agent; or

are otherwise exempt from backup withholding.

Reporting Requirements. Valley shareholders will be required to retain records pertaining to the merger. Additionally, each Valley shareholder who is required to file a U.S. tax return and who is a significant holder will be required to file with its U.S. federal income tax return for the year in which the merger takes place a statement setting forth certain facts relating to the merger. Generally, a significant holder for this purpose is any Valley shareholder who, immediately before the merger, (i) owned at least 1% (by vote or value) of Valley common stock, or (ii) owned Valley securities with a tax basis of \$1 million or more. Each of Valley's shareholders will be responsible for the preparation of its own tax returns.

The foregoing discussion is for general information only and not intended to be legal or tax advice to any particular Valley shareholder. This discussion does not address tax consequences that may vary with, or are contingent on, individual circumstances. Moreover, it does not address any non-income tax or any foreign, state or local tax consequences of the merger. Tax matters are very complicated, and the tax consequences of the merger to a Valley shareholder will depend upon the facts of such shareholder's particular situation. Accordingly, Valley shareholders are strongly urged to consult with a tax advisor to determine the particular tax consequences of the merger.

Accounting Treatment

The merger will be accounted for using the purchase method of accounting with Heritage treated as the acquirer. Under this method of accounting, Valley's assets and liabilities will be recorded by Heritage at their respective fair values as of the date of completion of the merger. Financial statements of Heritage issued after the merger will reflect these values and will not be restated retroactively to reflect the historical financial position or results of operations of Valley.

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Regulatory Approvals

Under federal law, the merger must be approved by the Federal Reserve Board and the bank merger must be approved by the Federal Deposit Insurance Corporation and the Washington Department of Financial Institutions, Division of Banks. The U.S. Department of Justice may review the impact of the merger and the bank merger on competition.

We have requested a waiver from the Board of Governors of the Federal Reserve System of its application requirements that would apply to this merger. Assuming this waiver is granted, once the FDIC and DFI approve the merger, we must wait for up to 30 days before we can complete the merger. If, however, there are no adverse comments from the U.S. Department of Justice and we receive permission from the FDIC and DFI to do so, the merger may be completed on or after the 15th day after approval from the Federal Reserve Board.

As of the date of this proxy statement/prospectus, all of the required regulatory applications have been filed. There can be no assurance as to whether all regulatory approvals will be obtained or as to the dates of the approvals. There also can be no assurance that the regulatory approvals received will not contain any undue burdensome condition upon Heritage following the merger or Heritage Bank following the bank merger. See The Merger Agreement Conditions to Completion of the Merger.

Dissenters Rights of Valley Shareholders

In accordance with Chapter 23B.13 of the WBCA, Valley's shareholders have the right to dissent from the merger and to receive payment in cash for the fair value of their Valley common stock if the merger becomes effective.

Valley shareholders electing to exercise dissenters' rights must comply with the provisions of Chapter 23B.13 of the WBCA in order to perfect their rights. The following is intended as a brief summary of the material provisions of the Washington statutory procedures required to be followed by a Valley shareholder in order to dissent from the merger and perfect the shareholder's dissenters' rights. This summary, however, is not a complete statement of all applicable requirements and is qualified in its entirety by reference to Chapter 23B.13 of the WBCA, the applicable text of which is set forth in **Appendix C**.

A shareholder who wishes to assert dissenters' rights must (i) deliver to Valley, before the vote is taken by Valley shareholders, notice of the shareholder's intent to demand payment for the shareholder's shares if the merger is effected, and (ii) not vote such shares in favor of the merger. A shareholder wishing to deliver such notice should hand deliver or mail such notice to Valley at the following address before the vote on the merger agreement is taken:

Valley Community Bancshares, Inc.

1307 East Main Avenue

Puyallup, Washington 98372

or deliver such notice at the special meeting of shareholders prior to the vote being taken by Valley shareholders.

A shareholder who wishes to exercise dissenters' rights generally must dissent with respect to all the shares the shareholder owns or over which the shareholder has power to direct the vote. However, if a record shareholder is a nominee for more than one beneficial shareholder, some of whom wish to dissent and some of whom do not, then the record holder may dissent with respect to all the shares beneficially owned by any one person by delivering to Valley a notice of the name and address of each person on whose behalf the record shareholder asserts dissenters' rights. A beneficial shareholder may assert dissenters' rights directly by submitting to Valley the record shareholder's written consent to the dissent not later than the time the beneficial shareholder asserts dissenters' rights and by dissenting with respect to all the shares of which such shareholder is the beneficial shareholder or over which such shareholder has power to direct the vote.

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A shareholder who does not deliver a notice of the shareholder's intent to demand payment for the fair value of the shares to Valley prior to the vote being taken by Valley shareholders will lose the right to exercise dissenters' rights. In addition, shares must either not be voted at the special meeting or must be voted against, or must abstain from voting on, the approval of the merger agreement. Submitting a properly signed proxy card that is received prior to the vote at the special meeting (and is not properly revoked) that does not direct how the shares of Valley common stock represented by proxy are to be voted will, for purposes of dissenters' rights constitute a vote in favor of the merger agreement and, therefore, a waiver of such shareholder's statutory dissenters' rights.

If the merger is effected, Heritage, as the surviving corporation, is required, within ten days after the effective date of the merger, to deliver a written notice to all shareholders who properly perfected their dissenters' rights in accordance with Chapter 23B.13 of the WBCA. Such notice must, among other things: (i) state where the payment demand must be sent and where and when certificates for certificated shares must be deposited; (ii) inform holders of uncertificated shares to what extent transfer of the shares will be restricted after the payment demand is received; (iii) supply a form for demanding payment that includes the date of the first announcement to news media or to shareholders of the terms of the proposed merger and requires that the person asserting dissenters' rights certify whether or not the person acquired beneficial ownership of the shares before that date; and (iv) set a date by which Heritage must receive the payment demand, which date must be between 30 and 60 days after notice is delivered.

A shareholder wishing to exercise dissenters' rights must timely file the payment demand and deposit share certificates as required in the notice. Failure to do so will cause such person to lose his or her dissenters' rights.

Within 30 days after the merger occurs or receipt of the payment demand, whichever is later, Heritage is required to pay each dissenter with properly perfected dissenters' rights Heritage's estimate of the fair value of the shareholder's shares, plus accrued interest from the effective date of the merger until the payment date. With respect to a dissenter who did not beneficially own Valley shares prior to the public announcement of the merger, Heritage may elect to withhold payment. After the effective date of the merger, however, Heritage must estimate the fair value of the shares, plus accrued interest from the effective date of the merger until the date of payment, and then send an offer to the dissenting shareholder to whom Heritage withheld payment explaining how it estimated the fair value of the shares, an explanation of how the interest was calculated, and a statement of the dissenter's right to demand payment under Section 23B.13.280 of the WBCA. Heritage must pay the estimated fair value to dissenting shareholders that agree to accept the payment of the estimated fair value in full satisfaction of their demand for payment. In all instances in which Heritage is required to pay accrued interest on the fair value of shares, the rate of interest is generally required to be the average rate Heritage currently pays on its principal bank loans or, if none, a rate that is fair and equitable. For purposes of Chapter 23B.13 of the WBCA, fair value with respect to dissenters' shares means the value of the shares of Valley common stock immediately before the effective date of the merger, excluding any appreciation or depreciation in anticipation of the merger, unless that exclusion would be inequitable. The procedures for dissenting shareholders are as set forth in **Appendix C**.

In view of the complexity of Chapter 23B.13 of the WBCA and the requirement that shareholders must strictly comply with the provisions of Chapter 23B.13 of the WBCA, shareholders of Valley who may wish to dissent from the merger and pursue appraisal rights should consult their legal advisors.

Board of Directors and Management of Heritage Following the Merger

A director of Valley will become a director of Heritage. Biographical and other information regarding the Valley directors is contained under The Companies Valley. Information regarding the executive officers and directors of Heritage is contained in documents filed by Heritage with the SEC and incorporated by reference into this proxy statement/prospectus, including Heritage's Annual Report on Form 10-K for the year ended December 31, 2012 and its definitive 2013 annual meeting proxy statement filed with the SEC on March 19, 2013. See [Where You Can Find More Information](#).

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Interests of Valley Executive Officers and Directors in the Merger

In the merger, the directors and executive officers of Valley will receive the same consideration for their Valley shares as the other shareholders of Valley. In considering the recommendation of the Valley board of directors that you vote to approve the merger agreement, you should be aware that some of Valley's executive officers and directors may have interests in the merger and may have arrangements, as described below, which may be considered to be different from, or in addition to, those of Valley's shareholders generally. The Valley board of directors was aware of these interests and considered them, among other matters, in reaching its decisions to approve the merger agreement and to recommend that you vote in favor of approving the merger agreement. Further, pursuant to the merger agreement, each director and executive officer of Valley and Valley Bank has delivered to Heritage an executed voting agreement and each director of Valley and Valley Bank has delivered to Heritage a noncompete agreement, each in the form attached as an exhibit to the merger agreement for no additional consideration.

Stock Ownership. The current directors and officers of Valley, together with their affiliates, beneficially owned, as of the record date for the special meeting, a total of 124,733 shares of Valley common stock, representing approximately 11.07% of the total outstanding shares of Valley common stock. Each of Valley's directors and executive officers has executed a voting agreement, agreeing to vote his shares in favor of the merger agreement. See *Information About the Special Meeting of Valley Shareholders' Shares Subject to Voting Agreements; Shares Held by Directors and Executive Officers.*

Stock Options. One Valley executive officer holds options for the issuance of a total of 5,000 shares of Valley common stock, of which options representing 5,000 shares are not yet vested and exercisable. The consummation of the merger will result in the immediate vesting of all outstanding unvested options, including the options held by the Valley executive officer. Pursuant to the merger agreement, prior to the consummation of the merger, Valley must cause all outstanding and unexercised options to be cancelled. In the case of an option whose per-share exercise price is equal to or greater than the merger consideration per share, which we refer to as an out-of-the-money option, no payment will be made to the holder for cancellation. In the case of an option whose per-share exercise price is less than the merger consideration per share, which we refer to as an in-the-money option, Valley will make a cash payment for cancellation in an amount equal to the value of the merger consideration per share of Valley common stock less the per share exercise price of the option multiplied by the number of shares subject to the option. See *The Merger Agreement' Stock Options.*

A Valley Director will Become a Heritage Director. Following the completion of the merger, a current director of Valley will join the board of directors of Heritage. Such director will be entitled to the same compensation as is provided to the other non-employee directors of Heritage. In 2012, each non-employee director, other than the Chairman of the Board, was paid an annual cash retainer of \$24,000 plus committee fees for service as a director. The Chairman of the Board received an annual cash retainer of \$60,000 in lieu of the standard annual retainer and committee fees. Chairs of the Audit and Finance, Compensation and Governance and Nominating Committees are paid a quarterly cash retainer of \$2,500 and the chair of the Risk Committee is paid a quarterly cash retainer of \$1,250 to serve as Chairs of the respective committees. Members of the Audit and Finance, Compensation and Governance and Nominating Committees receive an additional per meeting attendance fee of \$500. Members of the Risk Committee receive an additional per meeting fee of \$400. Directors are provided or reimbursed for travel and lodging (including for spouse) and are reimbursed for other customary out-of-pocket expenses incurred in attending out-of-town board and committee meetings, as well as industry conferences and continuing education seminars.

Indemnification and Insurance. As described under *The Merger Agreement' Indemnification and Continuance of Director and Officer Liability Coverage,* Heritage will indemnify (and advance expenses to), for a period of six years from and after the effective time of the merger, to the fullest extent permitted by any of the Valley's or Valley Bank's articles of incorporation or charter, bylaws, or applicable law, the directors, officers, employees and agents of Valley and its subsidiaries with respect to claims pertaining to matters occurring at or

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prior to the effective time of the merger. Heritage also has agreed, for a period of six years after the effective time of the merger, to maintain at its expense directors' and officers' liability insurance with respect to claims arising from facts or events occurring prior to completion of the merger. This insurance must contain terms substantially equivalent to the coverage currently provided by Valley, provided that Heritage shall not be required to pay for this insurance more than an amount equal to 150% of the annual premium most recently paid by Valley. Instead of providing this insurance coverage, Heritage may, prior to the effective time of the merger, purchase directly or cause Valley to purchase at Valley's expense a tail policy for directors' and officers' liability insurance on the terms described in the preceding sentence.

Termination of Supplemental Retirement Benefit Indemnification and Executive Severance Agreements. Pursuant to the merger agreement, Valley's President and Chief Executive Officer David H. Brown and its Executive Vice President and Chief Financial Officer Joseph E. Riordon have delivered to Heritage agreements to terminate their respective Supplemental Retirement Benefit Agreements and Executive Severance Agreements. Pursuant to the termination agreements, each of these executive officers has agreed to maintain the confidentiality of certain information related to Valley and Valley Bank and not compete with Heritage or Heritage Bank for a period of two years after the later of the termination of his employment with Valley or Valley Bank or Heritage or Heritage Bank (in the event the executive officer is retained as an employee of Heritage or Heritage Bank subsequent to the merger as determined by Heritage in its sole discretion). Under his agreement, the President and Chief Executive Officer will receive a payment of \$579,928 to terminate his Supplemental Retirement Benefit Agreement and a \$240,089 severance payment to terminate his Executive Severance Agreement. The Executive Vice President and Chief Financial Officer will receive a payment of \$166,214 to terminate his Supplemental Retirement Benefit Agreement and a \$232,183 severance payment to terminate his Executive Severance Agreement.

Stock Listing

It is a condition to each party's obligation to complete the merger that the shares of Heritage common stock to be issued in the merger be authorized for listing on the NASDAQ Stock Market subject to official notice of issuance.

THE MERGER AGREEMENT

The following is a summary of the material provisions of the merger agreement. This summary is qualified in its entirety by reference to the merger agreement, a copy of which is attached as **Appendix A** to this proxy statement/prospectus and is incorporated herein by reference. You should read the merger agreement in its entirety, as it is the legal document governing the merger.

The Merger

The boards of directors of Valley and Heritage have each unanimously approved the merger agreement, which provides for the merger of Valley into Heritage, with Heritage as the surviving corporation of the merger. Each share of Heritage common stock issued and outstanding immediately prior to the effective time of the merger will remain issued and outstanding as one share of Heritage common stock. Each share of Valley common stock issued and outstanding immediately prior to the effective time of the merger will be converted into the right to receive \$19.50 in cash and 1.3611 shares of Heritage common stock, subject to adjustment, as described below. See **Merger Consideration**. The merger agreement provides that after the effective time of the merger Heritage intends to merge Valley Bank, a wholly owned subsidiary of Valley, with and into Heritage Bank, a wholly owned subsidiary of Heritage, with Heritage Bank as the surviving institution. We refer to the merger of Heritage Bank and Valley Bank as the **bank merger**.

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Effective Time and Completion of the Merger

The merger agreement provides that unless both Heritage and Valley agree to a later date, the filings necessary to make the merger effective, consisting of articles of merger to be filed with the Secretary of State of the State of Washington, will be made on or before the last day of the month (but no earlier than five business days) after all of the conditions to completion of the merger have been satisfied or waived (other than those that by their nature are to be satisfied or waived at the closing of the merger).

We currently expect that the merger will be completed in the third quarter of 2013, subject to the approval of the merger agreement by Valley shareholders, the receipt of all necessary regulatory approvals and the expiration of all regulatory waiting periods. However, completion of the merger could be delayed if there is a delay in obtaining the required regulatory approvals or in satisfying any other conditions to the merger. There can be no assurances as to whether, or when, Heritage and Valley will obtain the required approvals or complete the merger. See [Conditions to Completion of the Merger](#).

Merger Consideration

Under the terms of the merger agreement, upon completion of the merger, each share of Valley common stock that is outstanding immediately prior to the merger will be converted into the right to receive \$19.50 in cash and 1.3611 shares of Heritage common stock (with cash paid in lieu of fractional share interests), subject to adjustment. We sometimes refer to this 1.3611-to-one ratio as the exchange ratio. If Heritage's volume weighted average closing stock price for the twenty trading day period commencing on the twenty-fifth day prior to the closing (the Heritage average closing price) is between \$11.46 and \$17.19 per share, then the exchange ratio will be fixed at 1.3611 per share. If the Heritage average closing price is equal to or greater than \$17.19 per share, then the exchange ratio will adjust and the merger consideration will be \$42.90 per share of which \$19.50 will be paid in cash and the exchange ratio will be adjusted by dividing \$23.3973 by the Heritage average closing price. If Heritage's average closing price is less than \$11.46, and Heritage does not elect to terminate the merger agreement, then Heritage has the right to either fix the exchange ratio at 1.3611 and pay the balance of the merger consideration in cash or adjust the exchange ratio above 1.3611 provided that at least \$19.50 of the merger consideration is paid in cash and in either case the total merger consideration per share is \$35.10 based on the Heritage average closing price.

No fractional shares of Heritage common stock will be issued in connection with the merger. Instead, Heritage will make a cash payment to each Valley shareholder who would otherwise receive a fractional Heritage share, equal to the fractional share amount multiplied by the Heritage average closing price. A Valley shareholder also has the right to obtain the fair value of his or her Valley shares in lieu of receiving the merger consideration under the merger agreement by strictly following the procedures under the WBCA, as discussed under [The Merger Dissenters Rights of Valley shareholders](#), beginning on page 35.

Based on the closing price of \$13.92 per share of Heritage common stock on May 15, 2013 and the exchange ratio of 1.3611, the implied value of the merger consideration per share of Valley common stock is \$38.45. However, as discussed above, the value of the shares of Heritage common stock to be issued in the merger will fluctuate during the period up to and including the completion of the merger. We cannot assure you whether or when the merger will be completed, and you are advised to obtain current market prices for Heritage common stock. See [Risk Factors](#). Because the market price of Heritage common stock will fluctuate, you cannot be sure of the value of the merger consideration you will receive.

If, prior to the effective time of the merger, the outstanding shares of Heritage common stock are increased, decreased, changed into or exchanged for a different number or kind of shares or securities as a result of a reorganization, recapitalization, reclassification, stock dividend, stock split or other similar change in capitalization, an appropriate and proportionate adjustment will be made to the exchange ratio.

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Exchange of Stock Certificates

Prior to the effective time of the merger, Heritage will appoint as the exchange agent under the merger agreement either its transfer agent, Computershare Trust Company, N.A., or an unrelated bank or trust company reasonably acceptable to Valley. As soon as reasonably practicable after the effective time of the merger, the exchange agent will mail to each holder of record of Valley common stock who does not exercise dissenters' rights a letter of transmittal and instructions for the surrender of the holder's Valley stock certificate(s) for the merger consideration and cash in lieu of any fractional Heritage share.

Valley shareholders should not send in their stock certificates until they receive the letter of transmittal and instructions.

Upon surrender to the exchange agent of the certificate(s) representing his or her shares of Valley common stock, accompanied by a properly completed letter of transmittal, a Valley shareholder will be entitled to promptly receive the merger consideration and cash in lieu of any fractional Heritage share. Until surrendered, each such certificate will represent after the effective time of the merger, for all purposes, only the right to receive, without interest, the merger consideration and cash in lieu of any fractional Heritage share.

No dividends or other distributions with respect to Heritage common stock after completion of the merger will be paid to the holder of any unsurrendered Valley stock certificates with respect to the Heritage shares represented by those certificates until those certificates have been properly surrendered. Subject to applicable abandoned property, escheat or similar laws, following the proper surrender of any such previously unsurrendered Valley stock certificate, the holder of the certificate will be entitled to receive, without interest, (i) the amount of unpaid dividends or other distributions with a record date after the effective time of the merger payable with respect to the whole shares of Heritage common stock represented by that certificate and/or (ii) at the appropriate payment date, the amount of dividends or other distributions payable with respect to shares of Heritage common stock represented by that certificate with a record date after the effective time of the merger (but before the date on which the certificate is surrendered) and with a payment date subsequent to the issuance of the shares of Heritage common stock issuable in exchange for that certificate.

Shares of Heritage common stock and cash in lieu of any fractional Heritage share may be issued or paid in a name other than the name in which the surrendered Valley stock certificate is registered if (i) the certificate surrendered is properly endorsed or otherwise in a proper form for transfer, and (ii) the person requesting the payment or issuance pays any transfer or other similar taxes due or establishes to the satisfaction of Heritage that such taxes have been paid or are not applicable.

After the effective time of the merger, there will be no transfers on the stock transfer books of Valley other than to settle transfers of shares of Valley common stock that occurred prior to the effective time. If, after the effective time of the merger, certificates for Valley common stock are presented for transfer to the exchange agent, the certificates will be cancelled and exchanged for the merger consideration and cash in lieu of any fractional Heritage shares.

Any portion of the shares of Heritage common stock to be issued in the merger and cash to be paid in lieu of fractional Heritage shares that remains unclaimed by Valley shareholders at the expiration of six months after the effective time of the merger may be paid to Heritage. In that case, former Valley shareholders who have not yet surrendered their Valley stock certificates may after that point look only to Heritage with respect to the merger consideration, any cash in lieu of any Heritage fractional shares and any unpaid dividends and distributions on the shares of Heritage common stock to which they are entitled, in each case, without interest. None of Heritage, the exchange agent or any other person will be liable to any former Valley shareholder for any amount delivered in good faith to a public official pursuant to applicable abandoned property, escheat or similar laws.

In the event any Valley stock certificate is lost, stolen or destroyed, in order to receive the merger consideration and any cash in lieu of any fractional Heritage share, the holder of that certificate must provide an

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affidavit of that fact and, if reasonably required by Heritage or the exchange agent, post a bond in such amount as Heritage determines is reasonably necessary to indemnify it against any claim that may be made against it with respect to that certificate.

Stock Options

The merger agreement requires Valley to cause all outstanding and unexercised options to purchase shares of Valley common stock to be canceled prior to the effective time of the merger. In the case of out-of-the-money options, no payment will be made to the option holder for cancellation and in the case of in-the-money options, Valley must pay the option holder a cash amount equal to value of the merger consideration per share less the per share exercise price of the option multiplied by the number of shares underlying the option. Heritage will not assume any outstanding Valley stock options, and none of the outstanding Valley stock options will be converted to, or represent rights to acquire, Heritage common stock.

Conduct of Business Pending the Merger

Pursuant to the merger agreement, Valley and Heritage have agreed to certain restrictions on their activities until the merger is completed or terminated. In general, each party has agreed that, except as otherwise permitted by the merger agreement, or as required by applicable law or a governmental entity or with the prior written consent of the other party, it will:

use commercially reasonable best efforts to maintain and preserve intact its business organization and advantageous business relationships;

not take any action that is intended to or that would reasonably be expected to adversely affect or materially delay the ability of either party or its subsidiaries to obtain any necessary regulatory approvals or to complete the merger;

not take any action that is intended or that would reasonably be expected to cause the merger or the bank merger to fail to qualify as a reorganization under Section 368(a) of the Internal Revenue Code or cause any of their representations and warranties in the merger agreement to be untrue in any material respect or any of the conditions in the merger agreement to be unsatisfied or to result in a violation of any provision of the merger agreement; and

not take any action that is likely to materially impair the party's ability to perform any of its obligations under the merger agreement or its subsidiary bank to perform any of its obligations under the bank merger agreement.

Heritage has also agreed that it will not and will not permit any of its subsidiaries to amend its articles of incorporation or bylaws (or the articles of incorporation or bylaws of a significant subsidiary) in a manner that would adversely affect Valley or any of its subsidiaries.

Valley has also agreed that it will, and will cause each of its subsidiaries to, conduct its business in the ordinary course consistent with past practice in all material respects. Valley has further agreed that it will not, and will not permit any of its subsidiaries, to do any of the following without the prior written consent of Heritage:

issue or sell, or authorize the creation of, any additional shares of its capital stock, other ownership interests or any rights to acquire stock or voting debt securities, except pursuant to Valley stock options outstanding on the date of the merger agreement;

issue any other capital securities, including trust preferred or other similar securities, voting debt securities or other securities;

pay any dividends or other distributions on its capital stock, other than dividends from wholly owned subsidiaries to Valley or to another wholly owned subsidiary of Valley;

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other than amending incentive stock option agreements with Executive Vice President and Chief Financial Officer Riordan and three other officers to non-qualified stock options (i) enter into, modify, renew or terminate any employment, severance or similar agreement or arrangement with any director, officer or employee, or grant any salary or wage increase or increase any employee benefit (including incentive or bonus payments) other than (A) at will agreements, (B) normal increases in salary to rank and file employees, (C) severance in accordance with past practice and (D) changes that are required by applicable law; (ii) hire any new officers; (iii) promote any employee to a rank of vice president or higher; or (iv) pay expenses in excess of a specified amount for employees and directors to attend conventions or similar meetings;

except as required by law, establish, modify, renew or terminate any employee benefit plan or accelerate the vesting of benefits under any employee benefit plan;

sell, transfer or encumber any of its assets, except in the ordinary course of business consistent with past practice, and in the case of a sale or transfer, at fair value, or sell or transfer any of its deposit liabilities;

enter into, modify or renew any data processing contract, service provider agreement or any lease, license or maintenance agreement relating to real or personal property or intellectual property, or permit to lapse its rights in any material intellectual property;

acquire the assets, business or properties of any person, other than pursuant to foreclosure, in a fiduciary capacity or in satisfaction of debts contracted prior to the date of the merger agreement;

sell or acquire any loans (excluding originations) or loan participations, except in the ordinary course of business consistent with past practice (but, in the case of a sale, after giving Heritage or Heritage Bank a first right of refusal to acquire such loan or participation), or sell or acquire any loan servicing rights;

amend its articles of incorporation or bylaws or similar governing documents;

materially change its accounting principles, practices or methods, except as may be required by accounting principles generally accepted in the United States or any governmental entity;

enter into, materially modify, terminate or renew any material contract;

settle any legal claims involving an amount in excess of \$25,000, excluding amounts paid or reimbursed under any insurance policy;

foreclose upon any real property without obtaining a phase one environmental report, except for one- to four-family non-agricultural residential properties of five acres or less which Valley does not have reason to believe contains hazardous substances or might be in violation of or require remediation under environmental laws;

in the case of Valley Bank, (i) voluntarily make a material change in its deposit mix; (ii) increase or decrease the interest rate paid on its time deposits or certificates of deposit except in a manner consistent with past practice and competitive factors in the marketplace; (iii) incur any liability or obligation relating to retail banking and branch merchandising, marketing and advertising activities and initiatives except in the ordinary course of business consistent with past practice; (iv) open any new branch or deposit taking facility; or (v) close or relocate any existing branch or other facility;

acquire any investment securities outside of the limits specified in the merger agreement;

make capital expenditures outside the limits specified in the merger agreement;

materially change its loan underwriting policies or make loans on extensions of credit in excess of amounts specified in the merger agreement;

invest in any new or existing joint venture or any new real estate development or construction activity;

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materially change its interest rate and other risk management policies and practices;

incur any debt for borrowed funds other than in the ordinary course of business consistent with past practice with a term of one year or less;

make charitable contributions in excess of limits specified in the merger agreement;

enter into any new lines of business; or

make, change or revoke any tax election, amend any tax return, enter into any tax closing agreement, or settle any liability with respect to disputed taxes.

Third Party Proposals

Valley has agreed that, from the date of the merger agreement until the effective time of the merger or, if earlier, the termination of the merger agreement, it will not, and will cause its subsidiaries not to: (i) initiate, solicit, encourage or knowingly facilitate inquiries or proposals with respect to, or engage in any discussions or negotiations concerning, or provide to any person any confidential or nonpublic information concerning, its and its subsidiaries' business, properties or assets; or (ii) have any discussions with any person relating to any third party proposal for a tender or exchange offer, merger or consolidation or other business combination involving Valley or any of its significant subsidiaries or any proposal to acquire more than 20% of the voting power in, or more than 20% of the fair market value of the business, assets or deposits of, Valley or any of its significant subsidiaries (referred to as an acquisition proposal).

Notwithstanding this agreement, if Valley receives an unsolicited written acquisition proposal that Valley's board of directors determines in good faith is reasonably likely to constitute or result in a transaction that is more favorable from a financial point of view to the shareholders of Valley than the merger with Heritage (referred to as a superior proposal), Valley may provide confidential information to and negotiate with the third party that submitted the acquisition proposal if the Valley board of directors determines in good faith, after consulting with counsel, that the failure to do so would violate the board's fiduciary duties. In order to constitute a superior proposal, an acquisition proposal must be for a tender or exchange offer, for a merger or consolidation or other business combination involving Valley or any of its significant subsidiaries or for the acquisition of a majority of the voting power in, or a majority of the fair market value of the business, assets or deposits of, Valley or any of its significant subsidiaries. Valley must promptly advise Heritage of any alternative proposal received and keep it apprised of any related developments.

The merger agreement generally prohibits the Valley board of directors from withdrawing or modifying in a manner adverse to Heritage the board's recommendation that Valley's shareholders vote to approve the merger agreement (referred to as a change in recommendation). At any time prior to the approval of the merger agreement by Valley's shareholders, however, the Valley board of directors may effect a change in recommendation in response to a bona fide written unsolicited acquisition proposal that the board determines in good faith, after consultation with counsel, constitutes a superior proposal. The Valley board of directors may not make a change in recommendation in response to a superior proposal, or terminate the merger agreement to pursue a superior proposal, unless it has given Heritage at least four business days to propose a modification to the merger agreement and, after considering any such proposed modification, the board determines in good faith, after consultation with counsel, that the proposal continues to constitute a superior proposal.

If the Valley board of directors makes a change in recommendation or if Valley pursues a superior proposal, Valley could be required to pay Heritage a termination fee of \$1,760,000 in cash. See Termination of the Merger Agreement.

Representations and Warranties

The merger agreement contains generally customary representations and warranties of Heritage and Valley relating to their respective businesses that are made as of the date of the merger agreement and as of the

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completion date of the merger. The representations and warranties of each of Heritage and Valley have been made solely for the benefit of the other party and these representations and warranties should not be relied on by any other person. In addition, these representations and warranties:

have been qualified by information set forth in confidential disclosure schedules in connection with signing the merger agreement the information contained in these schedules modifies, qualifies and creates exceptions to the representations and warranties in the merger agreement;

will not survive consummation of the merger;

may be intended not as statements of fact, but rather as a way of allocating the risk to one of the parties to the merger agreement if those statements turn out to be inaccurate;

are in some cases subject to a materiality standard described in the merger agreement which may differ from what may be viewed as material by you; and

were made only as of the date of the merger agreement or such other date as is specified in the merger agreement. The representations and warranties made by Heritage and Valley to each other primarily relate to:

corporate organization and existence;

capitalization;

ownership of subsidiaries;

corporate authorization to enter into the merger agreement and to consummate the merger;

absence of any breach of organizational documents, violation of law or breach of agreements as a result of the merger;

regulatory approvals required in connection with the merger;

reports filed with governmental entities, including, in the case of Heritage, the SEC;