



Corporate Governance Guidelines

The Heritage Mission

We are committed to continuously improving:

- customer satisfaction
- employee empowerment
- shareholder value

The Heritage Vision

We are an innovative team providing financial services where your success is our vision

Approved by Board of Directors December 19, 2013

Corporate Governance Guidelines of the Heritage Financial Corporation Board of Directors

The Board of Directors ("Board") of Heritage Financial Corporation ("Heritage") has adopted these governance guidelines to assist in the oversight of corporate processes that best serve the interests of Heritage and its shareholders. These guidelines are intended to serve as a flexible framework within which the Board may conduct its business, not as a set of legally binding obligations. They should be interpreted in the context of all applicable laws and Heritage's articles of incorporation, bylaws, committee charters and other governing documents.

Responsibilities of Directors

The primary responsibility of the Board is to provide effective governance over the affairs of Heritage for the benefit of its shareholders. As part of this process, the Board selects Heritage's Chief Executive Officer ("CEO"), acts as a resource and as an advisor and counselor, and evaluates the CEO's performance. The Board's responsibility is to provide oversight of the management of Heritage, which it does by monitoring the performance of the CEO and other senior officers. The Board members, however, do not manage the day-to-day operations of Heritage, which is the responsibility of the CEO and other senior officers.

From among its members, the Board will select a Chair. The Chair will preside at all meetings of the Board and shareholders, ensuring all issues on the agenda are efficiently addressed and each director is given an opportunity and encouraged to contribute to their full potential. Should the Chair be temporarily unavailable, the CEO will preside unless a Vice Chair has been elected.

In fulfilling its duties and responsibilities, the Board delegates various responsibilities to the Corporate Governance/Nominating, Compensation, Audit, Risk, Donations, Executive, the Non-Deposit Investment and Insurance Products ("NDIP") and Trust Committees.

Directors are expected to demonstrate respect for each other, management and employees.

Conflicts of Interest

Under Heritage's Code of Ethics Policy, a conflict of interest is defined as an insider's involvement in outside businesses or other interests which might either conflict with the insider's duty to the Company or adversely affect the individual's judgment in the performance of his or her responsibilities. Our policy prohibits Company insiders from engaging in personal conduct that will conflict with the interests of the Company. In addition, we believe it is important to avoid even the appearance of a conflict of interest since this may damage the Company's reputation.

A director's other relationships may occasionally give rise to a need for the Board to consider that director's personal interest on a particular issue. The Board, after consultation with counsel (if necessary), determines on a case-by-case basis whether such a conflict of interest

exists or may appear to exist. The initial investigation of a potential conflict may be delegated by the Board to the Corporate Governance/Nominating Committee. The Board will take appropriate steps to identify such potential conflicts and to assure that all directors voting on an issue are disinterested with respect to that issue. It is the responsibility of each director to advise the Chair of the Corporate Governance/Nominating Committee (or the Board Chair, in the case of an issue involving the Chair of the Corporate Governance/Nominating Committee) of any affiliation with any party that may create a potential conflict of interest or the appearance thereof, potential embarrassment to Heritage, or possible inconsistency with Heritage policies or values.

Director Involvement in Certain Legal Proceedings

If any of the following events shall occur with respect to any director:

- A petition under the Federal bankruptcy laws or any state insolvency law is filed by or against the director, or any partnership of which he or she was a general partner at or within two years before the time of such filing, or any corporation or business association of which he or she was an executive officer at or within two years before the time of such filing;
- The director is convicted in a criminal proceeding or is a named subject of a pending criminal proceeding (excluding traffic violations and other minor offenses);
- The director is subject of an order, judgment or decree, permanently or temporarily enjoining him or her from (1) acting as or being affiliated with an investment advisor, underwriter, broker or dealer in securities, investment company, bank, savings and loan association or insurance company, or suspending his or her right to do so, (2) engaging in any type of business practice, or (3) engaging in any activity in connection with the purchase or sale of any security or commodity in connection with any violation of Federal or state securities laws or Federal commodities laws; or
- The director is found by a court or by a regulatory agency to have violated any Federal or state securities or commodities law, and that judgment or finding has not been suspended, reversed or vacated;

Then the director shall promptly notify the Chair of the Corporate Governance/Nominating Committee of such event, including all the relevant facts, and offer to resign from the Board, and the Committee shall promptly consider whether to recommend to the Board to accept the resignation of such director. If it makes such recommendation, the Board will promptly act upon it.

Selection of Director Candidates

To insure independence, the Board will consist of majority of "outside independent directors" as defined by the Securities regulations and NASDAQ Stock Market requirements. In accordance with the Board-approved Corporate Governance/Nominating Charter, the Corporate Governance/Nominating Committee shall consider from time to time individuals who, in the

judgment of the Committee, are best qualified to serve on the Board. The Committee will consider the experience, diversity and expertise already present on the Board to broaden the collective experience, diversity and expertise of the Board. Candidates for membership on the Board may be provided by a director or shareholder, or the Committee may retain professional search firms. The Corporate Governance/Nominating Committee will make the recommendation to the full Board based upon the results of its search. Each nomination or appointment by the Board requires the approval of two-thirds of the directors.

Heritage's Articles of Incorporation govern director terms. The Corporate Governance/Nominating Committee evaluates each director's past performance and contributions to the Board, and reviews past performance assessments when it considers whether to recommend to the Board nominating a director for reelection.

To assist the Corporate Governance/Nominating Committee fill vacancies on the board, a director contemplating retiring from the board, should give at least 12 months advance written notice of such intent to the Chair of the Corporate Governance/Nominating Committee.

Director Who Changes Job Responsibilities

Directors who retire or change the principal position they held when they were initially elected to the Board are expected to notify promptly the Corporate Governance/Nominating Committee of such event and offer to resign from the Board. The Board does not believe that a director in this circumstance should necessarily be required to leave the Board. However, the Corporate Governance/Nominating Committee should have the opportunity to assess each situation based on individual circumstances and make a recommendation to the Board whether to accept the resignation of such director. If it makes such a recommendation, the Board will promptly act upon it.

Meeting Attendance

Directors are expected to regularly attend and actively participate in Board and Board-related meetings. Board and Board committee meeting attendance, as well as attendance at the annual meeting of shareholders, is disclosed in the proxy statement for the annual meeting of shareholders.

Stock Ownership Guidelines

The Board believes that directors should hold meaningful equity ownership positions in Heritage. The Board has adopted Stock Ownership Guidelines. Directors are required to strictly abide by insider trading regulations.

Board Performance Assessments

The Corporate Governance/Nominating Committee is responsible for ensuring that at least one element of the Board performance assessments are completed annually. The full range of the assessments covers the Board's contribution as a whole, the effectiveness of Board committees

and individual director performance, and reviews opportunities for better contribution. Board and Board Committee performance results are discussed with the full Board and individual director performance results are discussed, as necessary, with the individual by the Chair of the Corporate Governance/Nominating Committee and the Board Chair. In the case of the Chair of the Corporate Governance/Nominating Committee, performance results are discussed by the Board Chair.

Director Compensation

The Compensation Committee is charged with the responsibility of annually reviewing the compensation of directors and recommending any changes to the full Board. Directors who are Heritage employees are not compensated for their services as Directors.

Director Travel Expenses Reimbursement

During the normal course of business, it may be necessary for a director to travel in order to attend meetings, conferences, and/or seminars for director education purposes. Such expenses are reimbursable in accordance with the director expense reimbursement guidelines.

Retirement of Directors

The Board's policy is that a director can serve until the term that expires immediately following the attainment of age 75. When a director completes the term after attainment of age 75, the Corporate Governance/Nominating Committee has the discretion, in exceptional circumstances, to nominate the director for up to three additional one year terms. For example, an exceptional circumstance includes, but is not limited to, a situation in which the director's continued service is needed to satisfy Heritage's NASDAQ Stock Market requirements. The Corporate Governance/Nominating Committee is responsible for reviewing and consulting with the Board on mandatory and voluntary director retirement matters.

Director Who Fails to Receive Majority Vote

In an uncontested election of directors (an election where the only nominees are those recommended by the Board), if any nominee receives a greater number of votes "withheld" from his or her election than votes "for" his or her election, such nominee shall offer to resign from the Board, and the Corporate Governance/Nominating Committee will promptly consider whether to recommend to the Board that it accept the resignation of such director. If it makes such a recommendation, the Board will promptly act upon it.

Board Committees

In fulfilling its duties and responsibilities, the Board delegates various responsibilities to its standing Committees, with the intention that the Board can rely upon the work of the Committees, without need to duplicate such work.

These standing committees of the Board are: Audit, Compensation, Corporate Governance/Nominating, Risk, Donations, Trust, the Non-Deposit Investment and Insurance Products ("NDIP") and Executive. Only Board members may serve as members of standing Board committees. Committee membership and each Chair shall be appointed by the Board annually on the recommendation of the Corporate Governance/Nominating Committee in consultation with the Board Chair, taking into account the directors' particular expertise and knowledge of Heritage and the preferences of individual Board members. While rotating Committee members is considered periodically, rotation is not mandatory since there are significant benefits attributed to continuity, experience gained serving on a particular Committee, and utilizing most effectively each individual's talents. Only outside "independent" directors, each of whom shall satisfy all the independence tests of applicable laws, rules and regulations, including those of the NASDAQ Stock Market, Inc. shall serve on the Audit, Compensation, and Corporate Governance/Nominating Committees. The Chair of each Committee will establish the agenda for each Committee meeting.

Each Committee has its own charter. Committee charters are updated from time to time to reflect the activities of each of the respective Committees and submitted to the Board for approval.

The Chair of each Committee shall report on the activities of the Committee to the Board, and minutes of each meeting shall be distributed to board members. Committee members may call for executive session at any Board meeting.

Director Orientation and Continuing Education

New directors shall be given an orientation with respect to their duties as a director and all directors shall cooperate in fulfilling applicable continuing education guidelines, as established by the Board of Directors.

Evaluation of the CEO

The Compensation Committee is responsible for conducting an annual evaluation of the CEO. A summary of the evaluation results is discussed with the directors meeting in Executive Session, and then communicated to the CEO by the Chair of the Compensation Committee and the Chair of the Board and/or the Lead Independent Director.

CEO and Executive Compensation

Annual base compensation for Heritage's CEO is determined and approved (in Executive Session) by the Compensation Committee and ratified by the independent Board members. Annual base compensation for other senior executive officers is reviewed and approved by the Compensation Committee and ratified by the independent Board members.

Succession Planning and Management Development

The CEO is responsible for developing and maintaining a process for advising the Board on planning for a potential successor chief executive officer, as well as for other key senior leadership positions in Heritage. The directors are responsible for oversight of the succession and management development program for leadership in Heritage. The CEO periodically reviews succession planning with the Board of Directors.

Executives Serving on Outside Boards

The CEO and other Heritage executives will comply with the Employee Handbook, Employment Agreements and the Code of Ethics Policy in relation to serving as a director for a for-profit company.

Strategic Plan and Business Plan

The Board is responsible for understanding, overseeing, and engaging in Heritage's strategic plan and, from inception through development and execution, should regularly monitor implementation of such plan to determine whether it is being implemented effectively. The Board also is responsible for overseeing and understanding Heritage's annual operating plan and monitoring whether this plan is being implemented effectively and within budgetary limits.

Board's Interaction with Institutional Investors, Retail Shareholders, Equity Analysts and Press

Inquiries to Board members from institutional investors, retail shareholders, equity analysts and/or press should be referred to the CEO for handling in accordance with Heritage policies regarding communications of company information.

Selection and Oversight of Independent Auditors

The Audit Committee of the Board has sole responsibility to appoint, compensate, evaluate, and replace the independent accounting firm that audits Heritage's financial statements, and submission to shareholders for ratification of the independent accounting firm selected by the Audit Committee shall not impair this responsibility. The Audit Committee also has sole responsibility to pre-approve the engagement terms and the provision of any audit and permitted non-audit services performed by such accounting firm for Heritage. The Audit Committee will have direct responsibility, and the Board will have a corresponding and supplemental responsibility, for monitoring the performance of such accounting firm and guarding against any compromise of its independence as well as overseeing the financial statements prepared by management, with the goal of assuring that they fairly present Heritage's financial condition and results in a clear and understandable way.

Lead Independent Director

On the recommendation of the Corporate Governance/Nominating Committee, the Board may designate an outside independent director to serve in a lead capacity to perform the duties and responsibilities as requested.

Executive Sessions

At each Board meeting, outside independent directors will hold an executive session, exclusive of management and non-independent directors.

Board Agenda

The Board agenda is generally determined by the Chair and the CEO. The agenda for each meeting is sent to the directors in advance along with background information and copies of any available materials supporting the agenda items. Subject matter that is sensitive in nature may or may not be distributed in advance of the meeting. Board members may suggest items to be included in the agenda.

Locations of Board Meeting

Board meetings are generally held at Heritage corporate headquarters. To provide directors with first-hand knowledge to assist in making strategic decisions and for other reasons deemed advisable, meetings may be held at locations other than Heritage corporate headquarters.

Attendance of Senior Officers at Board Meetings and Committee Meetings

The Board encourages the CEO, from time to time, to bring senior officers into Board or Committee meetings who can provide additional insight into the items being discussed or who have future potential that the CEO believes should be made visible to the Board.

Interaction with Subsidiaries

The Board is informed of significant developments affecting Heritage subsidiaries. The CEO, with the assistance of subsidiary management, is charged with the task of presenting material information to the Board in this regard.

Subsidiary Board Appointments/Resignations

The Board delegates responsibility to the Corporate Governance/Nominating Committee for screening, interviewing and appointing members to Subsidiary Boards. The Corporate Governance/Nominating Committee may seek input and advice from the CEO, senior officers and/or Board members.

Subsidiary Board Member Criteria

Each Subsidiary Board member must possess the individual qualities of competence, collegiality, integrity, accountability, and high performance standards. In addition to these qualities, members must devote the time and effort necessary to be productive members; including learning the business of the subsidiary, and doing all that is necessary to attend and actively participate in meetings.

Revisions to the Guidelines

The Corporate Governance/Nominating Committee shall re-evaluate these Guidelines periodically, but no less than annually, and recommend to the Board such revisions as it deems necessary or appropriate for the Board to more effectively discharge its responsibilities.