



Heritage Financial Corporation (“Heritage”)

2023 Sustainability Accounting Standards Board (“SASB”) Disclosures

At Heritage Financial Corporation (“Heritage”), we place a high priority on operating in a responsible and respectful manner. We are committed to identifying and mitigating those Environmental, Social, and Governance (“ESG”) exposures to our people and our customers and strengthening the communities and markets in which we operate our business. We have utilized the Sustainability Accounting Standards Board (“SASB”) Commercial Bank framework to identify specific areas of focus. We have also utilized industry guidance to identify risks and to further develop our ESG platform. Statistics and metrics in these disclosures include estimates and may be based on assumptions. Further, some of the figures in this report may be unaudited.

The table below presents the SASB Commercial Bank framework standard disclosures by topic and provides data as of December 31, 2022. The disclosures identify the sustainability issues most likely to impact the operations of Heritage and its subsidiary Heritage Bank (“Bank”).

<b>SASB Commercial Bank Standard Disclosures by Topic</b>		
<b>SASB Code</b>	<b>Accounting Metric</b>	<b>Response</b>
<b>Topic 1 - Data Security</b>		
FN-CB-230a.1	(1) Number of data breaches, (2) percentage involving personally identifiable information (PII), (3) number of account holders affected	In 2022, Heritage experienced incidental losses of PII for a very small number of customers. None of these incidents involved the breach of the Company’s network or processing systems. The Company concluded disclosure of these incidents would not be relevant as they did not impact a material number of customers, did not cause a material financial exposure, and did not trigger the state or federal regulatory notification requirements. Should a material data breach occur, Heritage will disclose the event in accordance with relevant laws and regulations. In all cases, Heritage management evaluates potential process improvements required to prevent further incidents.
FN-CB-230a.2	Description of approach to identifying and addressing data security risks	<p><b>1. Industry Standard Framework and Governance</b></p> <p>Heritage maintains an Information Security Framework (“Framework”), inclusive of cybersecurity risk, in accordance with requirements of its primary regulators and based on a unified compliance framework that draws from several industry standard frameworks including NIST and ISO27001. The Framework is encapsulated in the board approved Information Security Policy and Program and governs the company-wide assessment of data security vulnerabilities in information systems, security procedures, and internal controls as well as external threats and vulnerabilities.</p> <p>The Framework is independently governed within the Enterprise Risk Management Division and overseen by the Chief Risk Officer assisted by the Director of Technology Risk</p>

**SASB Commercial Bank Standard Disclosures by Topic**

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		<p>Management. An Executive level Security Council approves and oversees the operation of the framework with continuous reporting to the Board of Directors and the Board Risk Committee.</p> <p>The Framework is subject to annual independent audits performed by the Company’s Internal Audit Department assisted by third party subject matter experts. Additionally, the Internal Audit Department supervises quarterly penetration testing performed by a third-party subject matter expert. The results reported to the Board Risk Committee and issues raised are formally tracked to resolution and ongoing progress reported.</p> <p>Recognizing that many vulnerabilities can originate with poor employee decision making, the Company maintains a robust IT and cybersecurity training program. Additionally, employees are subject to independently administered phishing and social engineering testing throughout the year. Employees who fail the testing are subject to additional training requirements.</p> <p><b>2. Regulatory Oversight</b> Heritage is regulated by the Federal Reserve and the Bank is regulated by both the Federal Deposit Insurance Corporation (“FDIC”) and the State of Washington Department of Financial Institutions. The Framework implemented at Heritage complies with the regulatory requirements promulgated by Title V. of the Gramm-Leach-Bliley Act (“GLBA”), the Fair and Accurate Credit Transactions Act, the Health Insurance Portability and Accountability Act, the Payment Card Industry Data Security Standard, and associated guidance from the Federal Financial Institutions Examination Council (“FFIEC”) and the FDIC.</p> <p><b>3. Monitoring and Corrective Actions</b> Heritage actively and continuously monitors new and emerging cyber threats as identified by its scanning mechanisms and through bulletins received from numerous agencies including:</p> <ul style="list-style-type: none"> <li>• FFIEC</li> <li>• FBI</li> <li>• Financial Crimes Enforcement Network</li> <li>• U.S. Secret Service</li> <li>• FDIC</li> <li>• Financial Services Information Sharing and Analysis Center</li> </ul> <p>Appropriate steps, including software patching, are taken in accordance with the magnitude and vector of any relevant threats.</p>

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		<p>Any structural weaknesses identified through any of the monitoring or testing mechanisms are corrected in accordance with its assigned Incident Severity Rating as defined by the Company. Corrective actions may include software patching, strengthened technology, management or operational processes, policies and procedures, employee training, or other corrective action as warranted. Based on the severity rating, corrective actions are formally tracked, reported to the Board of Directors or appropriate Board committee, or independently tested for repeatability and sustainability.</p> <p><b>4. Breach Response</b>  In the event of a breach, Heritage will initiate a formal incident response process to manage the event as appropriate. Heritage policies and procedures require disclosing breach events to the public and customers in accordance with GLBA <i>Computer-Security Incident Notification Requirements for Banking Organizations and Their Bank Service Providers</i>, and the relevant state laws, primarily Washington and Oregon. The GLBA and most states generally require a customer be notified if specified information is lost, and the entity is unable to assess the risk of harm and/or identity theft resulting from the unauthorized access/acquisition is low. If warranted by the circumstances, Heritage may engage legal counsel to assist in determining whether customer, banking regulator, and/or state agency notification is required and advise on the specific notification language. When customer notification is required, Heritage will close any affected accounts and offer the customer free credit monitoring and repair services.</p>
<b>Topic 2 – Financial Inclusion and Capacity Building</b>		
FN-CB-240a.1 FN-CB-240a.2	Number and amount of loans outstanding, past due and non-accrual qualified to programs designed to promote small business and community development	<p><b>Small Business and Community Development Lending</b>  See Table 1 for a breakout of the 2,506 loans by category, including past due and non-accrual loans as of December 31, 2022.</p> <p>Heritage Bank, at its option, does not report “other small business loans and lines of credit.”</p> <p><b>Lending Strategy</b>  The Bank’s short and long-term strategy for expanding its portfolio of loans to support small business and community development currently entails four core areas of focus:</p> <p><b>1. Low Income Housing Finance</b>  The Bank has a history of being a regional leader in providing equity and construction financing for low-income housing projects for large capacity and high social impact affordable housing developments, primarily along the I-5</p>

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		<p>Corridor from Bellingham, WA to Portland, OR, but also in Yakima, WA. The Bank has several dedicated lenders with expertise in this area of complex financing. The Bank's portfolio of Low-Income Housing Tax Credits ("LIHTC") and program of debt/equity financing deals is a leader among banks of its asset size. The Bank continually tracks its success and recalibrates its strategy to maximize community impact and remain competitive with much larger banks.</p> <p><b>2. Small Business Lending</b>  The Bank is a proven leader in small business lending through programs offered by the Small Business Administration ("SBA"). For example, the Bank repeatedly ranks highest in the Seattle/Spokane SBA region for 504 loan originations. Additionally, the Bank is very competitive in the SBA 7a program, sometimes ranking in the top ten of such lenders just behind exponentially larger banks such as JP Morgan Chase. The Bank also developed a new specialized small business lending platform which launched in July of 2022. The platform provides a streamlined and cost-effective "quick decision" approval process for non-real estate secured loans of up to \$500,000 and real estate loans up to \$750,000.</p> <p><b>3. Non-profit Lending and Banking</b>  The Bank's Portland, OR branch has a niche group of lenders with experience in cultivating non-profit client relationships. Many of these non-profit clients qualify as community development organizations under the Community Reinvestment Act ("CRA") definitions. The lenders in this office have trained with the Bank's Washington lenders to expand the Bank's client prospecting of non-profit organizations.</p> <p><b>4. Community Development Entity Finance</b>  Lastly, the Bank continues to refine its strategy related to community development lending through the formation of the Heritage Bank Community Development Entity, LLC ("HBCDE"). Initial capitalization totaled \$50 million. HBCDE was created to encourage business expansion in economically stressed communities by providing an attractive loan program with better rates and terms and more flexibility than a traditional loan. The Bank's investments are intended to help revitalize economically distressed communities by creating jobs and increasing the availability of goods and services. This loan fund provides payments that are about half of what a company would typically pay giving them the ability to preserve cash and focus on growing their business.</p>

**SASB Commercial Bank Standard Disclosures by Topic**

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		<p>HBCDE is managed by the Bank with the assistance of an independent advisory board made up of seven community leaders from across the Bank’s footprint. During 2022, HBCDE originated 5 loans with a net balance of \$10.3 million as of December 31, 2022. In 2023, the Bank hopes to further the reach of the CDE into Idaho with its expansion into the state and is actively seeking a community stakeholder to fill a role within the advisory board.</p> <p>Further, the Bank has been selected to administer State Small Business Credit Initiative (“SSBCI”) funding from the Treasury on the behalf of the Washington State Department of Commerce to deploy a new \$216 million dollar loan program. The program is designed to help businesses owned and controlled by socially and economically disadvantaged individuals to build or acquire real estate for use by their business.</p> <p><b>Community Reinvestment Act Ratings</b>                      The Bank received an overall rating of “Satisfactory” on its most recent CRA Performance Evaluation Report dated June 29, 2020. The ratings for the three individual tests are as follows:</p> <p><b>Lending Test:</b> High Satisfactory  <b>Investment Test:</b> Outstanding  <b>Services Test:</b> High Satisfactory</p> <p>The Bank’s focused approach to CRA compliance was discussed in the 2020 Performance Evaluation in the form of the positive qualifiers such as “complex/ innovative” and “leadership position.” The Bank is scheduled for its next CRA examination in Q3 2023.</p>									
FN-CB-240a.3	Number of no-cost retail checking accounts provided to previously unbanked or underbanked customers	<p>Heritage offers two checking accounts that place a suitably low burden on low-and-moderate-income customers. The Bank’s Base checking account provides a low balance option for which no fee is charged if the minimum \$100 balance is maintained. The FreshStart checking account is an affordable option designed for customers who are working to establish a clean account management history. Electronic statements are free for both options. The number and balances as of year-end 2022 are as follows:</p> <table border="1" data-bbox="683 1633 1230 1843"> <thead> <tr> <th data-bbox="683 1633 906 1728">Product</th> <th data-bbox="906 1633 1027 1728">#</th> <th data-bbox="1027 1633 1230 1728">Balance (\$000s)</th> </tr> </thead> <tbody> <tr> <td data-bbox="683 1728 906 1787">Base</td> <td data-bbox="906 1728 1027 1787">20,789</td> <td data-bbox="1027 1728 1230 1787">\$208,336</td> </tr> <tr> <td data-bbox="683 1787 906 1843">FreshStart</td> <td data-bbox="906 1787 1027 1843">354</td> <td data-bbox="1027 1787 1230 1843">\$360</td> </tr> </tbody> </table>	Product	#	Balance (\$000s)	Base	20,789	\$208,336	FreshStart	354	\$360
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FN-CB-240a.4	Number of participants in financial literacy initiatives for unbanked, underbanked, or underserved customers	<p><b>Financial Literacy Training</b></p> <p>Heritage partners with Junior Achievement in Washington and Financial Beginnings in Oregon and Washington to provide financial literacy training to school age children on site at schools, Financial Beginnings also has the capacity to work with community groups. Additionally, a small core of mortgage lenders participates in first-time homebuyer’s education classes in partnership with the Washington State Housing Finance Commission. Training is performed by volunteer Heritage employees who visit the classroom or community group using materials provided by Junior Achievement or Financial Beginnings.</p> <p>Although the Bank received a High Satisfactory rating on the Services Test of the 2020 CRA Performance Evaluation, the Covid-19 pandemic significantly impacted the ability to provide in-person financial education in 2020 and 2021 compared to previous years. In 2022, Heritage saw a dramatic increase in volunteerism. Through its Financial Education committee, the Bank recognized February as Financial Literacy month internally encouraging all bank employees to teach financial education to schools, nonprofits, workplaces, and eldercare facilities. The Bank also implemented a Company volunteer day and encourages volunteerism during company-wide calls.</p> <p>In addition, Heritage makes financial contributions to Junior Achievement and Financial Beginnings as well as other charitable organizations that provide financial literacy education to the communities served as a primary focus of their mission.</p> <p>In accordance with CRA regulations, the Bank focuses its financial literacy outreach to low- and moderate-income individuals; the Bank historically has not tracked whether participants are unbanked or underbanked as that is not a CRA requirement. The Bank’s CRA Compliance Program focus on low-and-moderate-income is a measurable standard that does not require that the participant reveals their banking status. Instead, CRA permits the use of geocoding for the school or other location or the target audience of the session to determine low-and-moderate-income status for CRA credit.</p>
<b>Topic 3 – Incorporation of ESG Factors in Credit Analysis</b>		
FN-CB-410a.1	Commercial and industrial credit exposure, by industry	<p><b>Portfolio Exposure</b></p> <p>As of December 31, 2022, Heritage reported a Commercial and Industrial (“C&amp;I”) loan exposure totaling \$822.6 million. See <i>Table 2 – Commercial and industrial credit exposure by industry</i> for the total C&amp;I exposure further broken down by North American Industry Classification System (“NAICS”) three digit subsector code to show all industry exposures that</p>

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		represent greater than 2% of the total C&I exposure. As the table shows, the Bank's exposure to any one industry is very low and actively managed through its concentration management program.
FN-CB-410a.1	Description of approach to incorporation of environmental, social, and governance (ESG) factors in credit analysis	<p><b>Portfolio Risks</b></p> <p>As of December 31, 2022, the Bank's Loans Receivable were comprised of 17.1% C&amp;I, 62.3% commercial real estate (CRE), including owner and non-owner occupied, and 5.3% commercial construction and development. CRE loans are required to have insurance for common hazards, including flood where required by law.</p> <p><b>Identification and Mitigation of Hazards</b></p> <p>The Bank does not currently have any concentrations of credit exposure to ESG factors in the portfolio. In general, Heritage does not knowingly extend credit secured by real estate contaminated by hazardous substances unless the risk of doing so can be reduced to acceptable levels. The following outlines the Bank's lending practices which management determined are appropriate to the current ESG exposure to the Bank:</p> <ul style="list-style-type: none"> <li>• Heritage's lending policies and procedures require that any hazardous substance contamination, including significant petroleum contamination, is subject to remediation to currently acceptable levels before a loan is committed. Underwriting documentation will detail any risks and the testing thereof.</li> <li>• Environmental due diligence is performed on all Commercial Real Estate (CRE) loans that could present an environmental credit risk to the Bank.</li> <li>• The Bank currently has designated lending exception codes assigned to environmental due diligence that are used for approval purposes. During 2022, the Bank opened 304 environmental due diligence files for review by an environmental vendor, Environmental Data Resources, Inc.</li> <li>• As part of servicing during the life of a loan, real property collateral and borrowers are monitored to assess whether there have been changes that have increased environmental risks, and such actions will be undertaken as are appropriate in the management of such risks.</li> <li>• The Bank will preface any foreclosure bid with environmental research on real property collateral that meets the requirements of the Environmental Protection Agency's "all appropriate inquiry" rule, completed within the six months prior to the bid. If the Bank acquires</li> </ul>

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		<p>property via foreclosure, it will sell or otherwise divest itself of the property at the earliest practicable, commercially reasonable time, on commercially reasonable terms, taking into account market conditions and legal and regulatory requirements.</p> <ul style="list-style-type: none"> <li>The Bank’s allowance for credit losses model takes into consideration the direction of the general macroeconomic and business environment and its likely impact on historical loss rates over a reasonable and supportable time frame. If warranted, individual loans are separately assessed, and a reserve assigned based on the collectability of the loan as well as any environmental factors.</li> </ul>
<b>Topic 4 – Business Ethics</b>		
FN-CB-510a.1	Monetary losses resulting from legal proceedings associated with fraud, insider trading, anti-trust, anti-competitive behavior, market manipulation, malpractice, or other related financial industry laws or regulations	Heritage incurred no monetary losses resulting from legal proceedings associated with fraud, insider trading, anti-trust, anti-competitive behavior, market manipulation, malpractice, or other related financial industry laws or regulations in the 2022 reporting period.
FN-CB-510a.1	Description of whistleblower policies and procedures	<p>The Heritage Chief Risk Officer independently administers a comprehensive whistleblower policy in accordance with all relevant regulations. A third-party whistleblower vendor receives all matters and assigns them to the appropriate party for review and resolution, including the chairpersons of the Board of Director’s Audit and Finance Committee.</p> <p>Access to the third-party system is through both telephone and internet. The phone number and link are contained in the Company’s Code of Conduct and are prominently displayed on the home page of the Company’s intranet system for easy employee access. Informational posters are also prominently displayed in each branch and facility. Each year the Chief Executive Officer circulates an email to all employees reminding them of the policy and how to submit matters.</p> <p>Heritage takes all complaints seriously, whether registered through its own mechanism or through a government agency, including the U.S. Department of Labor or Securities and Exchange Commission. Heritage has a strict no retaliation</p>

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		<p>policy to ensure employees are treated respectfully and fairly in all situations.</p> <p>Heritage is unaware of any violations of whistleblower regulations or required corrective actions.</p>												
<b>Topic 5 – Systemic Risk Management</b>														
FN-CB-550a.1 FN-CB-550a.2	Global Systemically Important Bank (G-SIB) score, by category and Description of approach to incorporation of results of mandatory and voluntary stress tests into capital adequacy planning, long-term corporate strategy, and other business activities	This section is not applicable as Heritage does not meet the criteria as a G-SIB.												
<b>Additional Activity Metrics</b>														
FN-CB-000.A	(1) Number and (2) value of checking and savings accounts by segment: (a) personal and (b) small business	<p><i>Number and value of checking and savings accounts by segment: personal and small business as of December 31, 2022:</i></p> <table border="1"> <thead> <tr> <th></th> <th><b>Number</b></th> <th><b>Value (\$000s)</b></th> </tr> </thead> <tbody> <tr> <td>Personal</td> <td>74,589</td> <td>\$1,733,638</td> </tr> <tr> <td>Small Business</td> <td>19,487</td> <td>\$1,756,932</td> </tr> </tbody> </table>		<b>Number</b>	<b>Value (\$000s)</b>	Personal	74,589	\$1,733,638	Small Business	19,487	\$1,756,932			
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Personal	74,589	\$1,733,638												
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FN-CB-000.B	(1) Number and (2) value of loans by segment: (a) personal, (b) small business, and (c) corporate	<p><i>Number and value of loans by segment: personal, small business, and corporate as of December 31, 2022:</i></p> <table border="1"> <thead> <tr> <th></th> <th><b>Number</b></th> <th><b>Value (\$000s)</b></th> </tr> </thead> <tbody> <tr> <td>Personal</td> <td>10,829</td> <td>\$546,598</td> </tr> <tr> <td>Small Business</td> <td>3,994</td> <td>\$736,114</td> </tr> <tr> <td>Corporate</td> <td>1,172</td> <td>\$2,762,601</td> </tr> </tbody> </table>		<b>Number</b>	<b>Value (\$000s)</b>	Personal	10,829	\$546,598	Small Business	3,994	\$736,114	Corporate	1,172	\$2,762,601
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Personal	10,829	\$546,598												
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**Table 1 - Number and amount of loans outstanding, past due and non-accrual qualified to programs designed to promote small business and community development as of December 31, 2022**

<b>Loan Category</b>	<b>Total Nbr</b>	<b>Total Dollars Outstanding (\$000s)</b>	<b>Total Nbr of Past Due Loans</b>	<b>Total Dollars Past Due (\$000s)</b>	<b>Total Nbr of Non-Accrual Loans</b>	<b>Total Dollars Non-Accrual Loans (\$000s)</b>
Small Business	2,297	\$466,265	4	\$678	9	\$1,874
Small Farm	92	\$11,334	1	\$126	3	\$387
Community Development	96	\$250,802	--	--	--	--
Consortium <sup>(1)</sup>	21	\$676	--	--	--	--

<sup>1</sup> Consortium loans are defined as loan pools originated through partnerships with community groups.

**Table 2 - Commercial and industrial credit exposure by industry representing greater than 2% of the total C&I exposure as of December 31, 2022**

<b>NAICS Code</b>	<b>NAICS Code Title</b>	<b>Exposure Balance (\$000s)</b>	<b>% of C&amp;I Portfolio</b>
621	Ambulatory Health Care Services	\$121,581	14.78%
238	Specialty Trade Contractors	\$96,901	11.78%
541	Professional, Scientific, and Technical Services	\$88,503	10.76%
423	Merchant Wholesalers, Durable Goods	\$71,994	6.75%
321	Wood Product Manufacturing	\$36,850	4.48%
531	Real Estate	\$36,750	4.47%
424	Merchant Wholesalers, Nondurable Goods	\$34,928	4.25%
236	Construction of Buildings	\$27,429	3.33%
441	Motor Vehicle and Parts Dealers	\$25,503	3.10%
445	Food and Beverage Stores	\$23,652	2.88%
561	Administrative Support Services	\$21,256	2.58%
523	Securities, Commodity Contracts, and Other Financial Investments and Related Activities	\$16,527	2.01%
	All Others Below 2%	\$220,699	26.83%
	<b>Total C&amp;I Exposure</b>	<b>\$822,573</b>	<b>100.00%</b>