



ANNUAL USE OF CAPITAL SURVEY - 2009

NAME OF INSTITUTION

(Include Holding Company Where Applicable)

Heritage Financial Corporation (subsidiaries - Heritage Bank (HB) & Central Valley Bank (CVB))

Person to be contacted regarding this report:	Don Hinson
CPP Funds Received:	\$24,000,000
CPP Funds Repaid to Date:	\$0
Date Funded (first funding):	11/21/2008
Date Repaid ¹ :	

RSSD: (For Bank Holding Companies)	2166124
Holding Company Docket Number: (For Thrift Holding Companies)	
FDIC Certificate Number: (For Depository Institutions)	29102 - HB; 18616 - CVB
City:	Olympia
State:	Washington

¹If repayment was incremental, please enter the most recent repayment date.

American taxpayers are quite interested in knowing how banks have used the money that Treasury has invested under the Capital Purchase Program (CPP). To answer that question, Treasury is seeking responses that describe generally how the CPP investment has affected the operation of your business. We understand that once received, the cash associated with TARP funding is indistinguishable from other cash sources, unless the funds were segregated, and therefore it may not be feasible to identify precisely how the CPP investment was deployed or how many CPP dollars were allocated to each use. Nevertheless, we ask you to provide as much information as you can about how you have used the capital Treasury has provided, and how your uses of that capital have changed over time. Treasury will be pairing this survey with a summary of certain balance sheet and other financial data from your institution's regulatory filings, so to the extent you find it helpful to do so, please feel free to refer to your institution's quarterly call reports to illustrate your answers. This is your opportunity to speak to the taxpayers in your own words, which will be posted on our website.

What specific ways did your institution utilize CPP capital? Check all that apply and elaborate as appropriate, especially if the uses have shifted over time. Your responses should reflect actions taken over the past year (or for the portion of the year in which CPP funds were outstanding).

<input checked="" type="checkbox"/> Increase lending or reduce lending less than otherwise would have occurred.	We continued to lend to our communities as we had been prior to receiving CPP capital. If we had not received CPP capital we may have reduced our lending activities in order to improve our capital ratios during these difficult economic times.
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<input type="checkbox"/> To the extent the funds supported increased lending, please describe the major type of loans, if possible (residential mortgage loans, commercial mortgage loans, small business loans, etc.).	
<input type="checkbox"/> Increase securities purchased (ABS, MBS, etc.).	
<input type="checkbox"/> Make other investments	
<input type="checkbox"/> Increase reserves for non-performing assets	

<input type="checkbox"/>	Reduce borrowings	
<input type="checkbox"/>	Increase charge-offs	
<input type="checkbox"/>	Purchase another financial institution or purchase assets from another financial institution	
<input checked="" type="checkbox"/>	Held as non-leveraged increase to total capital	Although we did not leverage the CPP capital with increased lending, due to the overall regulatory environment encouraging the improvement of capital ratios in these economic times, the CPP capital allowed us to improve those ratios without the curtailment of our lending programs.

What actions were you able to avoid because of the capital infusion of CPP funds?

We were able to avoid the possibility of a reduction of lending activities. Although we were "well-capitalized" prior to receiving CPP funds, due to the economic conditions, we may have chosen to temporarily reduce lending activities in order to increase capital ratios.

What actions were you able to take that you may not have taken without the capital infusion of CPP funds?

As previously stated, we were able to continue to lend to our communities in the same capacity as before the economic downturn.

Please describe any other actions that you were able to undertake with the capital infusion of CPP funds.

None noted.

According to the Paperwork Reduction Act of 1995, no persons are required to respond to a collection of information unless it displays a valid OMB control number. The valid OMB control number for this information collection is 1505-0222. The time required to complete this information collection is estimated to average 80 hours per response.