

PUBLIC DISCLOSURE

January 29, 2018

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Commencement Bank

RSSD # 3537897

**1102 Commerce Street, Suite 100
Tacoma, Washington 98402**

**Federal Reserve Bank of San Francisco
101 Market Street
San Francisco, California 94105**

NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with the safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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INSTITUTION RATING

Institution's Community Reinvestment Act (CRA) Rating

Commencement Bank is rated "SATISFACTORY"

The following table shows the performance ratings for the lending and community development tests.

PERFORMANCE LEVELS	PERFORMANCE TESTS	
	LENDING TEST	COMMUNITY DEVELOPMENT TEST
OUTSTANDING		
SATISFACTORY	X	X
NEEDS TO IMPROVE		
SUBSTANTIAL NONCOMPLIANCE		

The major factors supporting the institution's rating include:

- A more than reasonable loan to deposit ratio;
- A substantial majority of loans originated within the bank's assessment area;
- An excellent geographic distribution of small business loans;
- An reasonable distribution of small business loans to businesses of different revenue sizes; and
- A satisfactory level of community development activities that supported the revitalization or stabilization of low- and moderate-income areas and promoted economic development.

INSTITUTION

Description of Institution

Commencement Bank (Commencement) headquartered in Tacoma, Washington, reported total assets of \$328.0 million as of December 31, 2017. Commencement merged with Thurston First Bank (TFB) of Olympia, Washington, on November 1, 2016, resulting in an expansion of the bank’s branch network to include a branch in Olympia, Washington. Commencement also operates a branch in Tacoma, Washington, and a branch in Enumclaw, Washington, that was converted from a loan production office on July 5, 2015. In addition, Commencement operates a loan production office in Auburn, Washington.

Commencement primarily provides banking products and services to small- and medium-sized businesses and professionals. Commercial loan products offered by the bank include commercial real estate, construction, and land development loans. Commercial financing is made available for working capital, equipment, and accounts receivable purposes. Deposit products offered are non-complex and include checking and savings accounts, certificates of deposit, and money market accounts.

As depicted in Exhibit 1 below, commercial loans represent the greatest portion of the bank’s loan portfolio as of June 30, 2017.

EXHIBIT 1 LOANS AND LEASES AS OF JUNE 30, 2017		
Loan Type	\$ ('000s)	%
Commercial/Industrial & Non-Farm Non-Residential Real Estate	178,123	73.1
Secured by 1-4 Family Residential Real Estate	18,191	7.5
All Other	16,363	6.7
Multi-Family Residential Real Estate	14,748	6.1
Construction & Land Development	13,415	5.5
Consumer Loans & Credit Cards	1,646	0.7
Farm Land & Agriculture	1,282	0.5
Total (Gross)	243,768	100.0

Commencement did not face any legal or financial impediments during the review period that would have prevented it from helping to meet the credit needs of its assessment area consistent with its business strategy, financial capacity, size, and local economic conditions. The bank received a satisfactory rating at its previous CRA examination, conducted as of October 7, 2013, by the Federal Reserve Bank of San Francisco using the *Interagency Small Institution CRA Examination Procedures*.

Description of Assessment Area

Commencement's assessment area consists of the southern portion of King County, Pierce County in its entirety and Thurston County in its entirety. Thurston County was added to the bank's assessment area subsequent to the prior CRA examination as a result of the merger with TFB. King County and Pierce County are part of the Seattle-Tacoma-Bellevue Metropolitan Statistical Area (MSA). King County is part of the Seattle-Tacoma-Bellevue Metropolitan Division (MD), and Pierce County is part of the Tacoma-Lakewood MD. Thurston County is part of the Olympia-Tumwater MSA. King County, Pierce County and Thurston County are also part of the Seattle-Tacoma Combined Statistical Area (CSA), which is made up of nine counties.

The three-county assessment area is located in the Puget Sound region in Western Washington. With a population of more than 2.1 million people, King County is the most populated county in the state of Washington. Pierce County has a population of 861,312 and Thurston County has a population of less than 300,000.¹

As of June 30, 2017, 54 Federal Deposit Insurance Corporation-insured commercial institutions operated 769 offices in the assessment area. Commencement operated three branches in the area, which had total deposits of \$288.5 million, representing 0.3 percent of the market.²

Exhibits 2 through 6 on the following pages present key demographic and business information used to help develop a performance context for the assessment area.

¹ U.S. Census Bureau, 2016 Population Estimates, King, Pierce, and Thurston County; available from: <http://quickfacts.census.gov/qfd/index.html>.

² Federal Deposit Insurance Corporation, Deposit Market Share Report, June 30, 2017; available from: <https://www5.fdic.gov/sod/sodMarketRpt.asp?barItem=2>.

EXHIBIT 2 ASSESSMENT AREA DEMOGRAPHICS KING-PIERCE-THURSTON 2013 2010 U.S. CENSUS AND 2013 DUN AND BRADSTREET DATA								
Income Categories	Tract Distribution		Families by Tract Income		Families < Poverty Level as % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low-income	16	4.8	13,619	3.4	3,362	24.7	86,402	21.5
Moderate-income	80	24.0	88,734	22.1	13,394	15.1	76,322	19.0
Middle-income	175	52.4	225,513	56.1	13,207	5.9	92,013	22.9
Upper-income	61	18.3	74,265	18.5	2,431	3.3	147,394	36.7
Tract not reported	2	0.6	0	0.0	0	0.0	0	0.0
Total AA	334	100.0	402,131	100.0	32,394	8.1	402,131	100.0
Income Categories	Housing Units by Tract	Housing Types by Tract Income						
		Owner-Occupied			Renter-occupied		Vacant	
		#	%	%	#	%	#	%
Low-income	27,775	6,804	1.8	24.5	18,479	66.5	2,492	9.0
Moderate-income	160,654	67,764	17.6	42.2	80,655	50.2	12,235	7.6
Middle-income	348,369	229,099	59.4	65.8	96,345	27.7	22,925	6.6
Upper-income	108,018	81,987	21.3	75.9	19,655	18.2	6,376	5.9
Tract not reported	0	0	0.0	0.0	0	0.0	0	0.0
Total AA	644,816	385,654	100.0	59.8	215,134	33.4	44,028	6.8
Income Categories	Total Businesses by Tract	Businesses by Tract Income & Revenue Size						
		Less Than or Equal to \$1 Million		Greater than \$1 Million		Revenue Not Reported		
		#	%	#	%	#	%	
Low-income	4,896	6.0	4,124	5.6	545	13.0	227	8.0
Moderate-income	19,824	24.5	17,398	23.5	1,538	36.6	888	31.1
Middle-income	42,120	52.0	39,170	53.0	1,620	38.6	1,330	46.6
Upper-income	14,130	17.5	13,221	17.9	499	11.9	410	14.4
Tract not reported	0	0.0	0	0.0	0	0.0	0	0.0
Total AA	80,970	100.0	73,913	100.0	4,202	100.0	2,855	100.0
Percentage of Total Businesses		91.3		5.2		3.5		
2013 Median Family Income ³			2013 Median Housing Value ⁴					
King County			\$71,834	King County			\$420,500	
Pierce County			\$57,660	Pierce County			\$217,700	
Thurston County			\$59,785	Thurston County			\$224,000	
2013 HUD Adjusted Median Family Income ⁵			2013 Unemployment Rate ⁶					
King County			\$86,700	King County			5.0%	
Pierce County			\$70,200	Pierce County			8.4%	
Thurston County			\$77,300	Thurston County			7.6%	

³ U.S. Census Bureau, American Community Survey 1 Yr. Estimates, DP03, 2013; available from: <http://factfinder2.census.gov>.

⁴ Runstad Center for Real Estate Studies, Washington State Housing Market, Median Home Prices; available from: <http://realestate.washington.edu/research/wcrer/reports/>.

⁵ U.S. Department of Housing and Urban Development, Adjusted Median Family Income; available from: <http://www.huduser.org/portal/datasets/il/il13/index.html>.

⁶ U.S. Bureau of Labor Statistics, Local Area Unemployment Statistics by County; available from: <http://data.bls.gov/cgi-bin/dsrv?la>.

EXHIBIT 3 ASSESSMENT AREA DEMOGRAPHICS KING-PIERCE-THURSTON 2014 2010 U.S. CENSUS AND 2014 DUN AND BRADSTREET DATA								
Income Categories	Tract Distribution		Families by Tract Income		Families < Poverty Level as % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low-income	16	4.8	13,619	3.4	3,362	24.7	86,402	21.5
Moderate-income	80	24.0	88,734	22.1	13,394	15.1	76,322	19.0
Middle-income	175	52.4	225,513	56.1	13,207	5.9	92,013	22.9
Upper-income	61	18.3	74,265	18.5	2,431	3.3	147,394	36.7
Tract not reported	2	0.6	0	0.0	0	0.0	0	0.0
Total AA	334	100.0	402,131	100.0	32,394	8.1	402,131	100.0
Income Categories	Housing Units by Tract	Housing Types by Tract Income						
		Owner-Occupied			Renter-occupied		Vacant	
		#	%	%	#	%	#	%
Low-income	27,775	6,804	1.8	24.5	18,479	66.5	2,492	9.0
Moderate-income	160,654	67,764	17.6	42.2	80,655	50.2	12,235	7.6
Middle-income	348,369	229,099	59.4	65.8	96,345	27.7	22,925	6.6
Upper-income	108,018	81,987	21.3	75.9	19,655	18.2	6,376	5.9
Tract not reported	0	0	0.0	0.0	0	0.0	0	0.0
Total AA	644,816	385,654	100.0	59.8	215,134	33.4	44,028	6.8
Income Categories	Total Businesses by Tract	Businesses by Tract Income & Revenue Size						
		Less Than or Equal to \$1 Million		Greater than \$1 Million		Revenue Not Reported		
		#	%	#	%	#	%	
Low-income	4,402	6.2	3,639	5.6	569	13.6	194	7.9
Moderate-income	17,327	24.4	15,029	23.3	1,524	36.5	774	31.5
Middle-income	36,701	51.6	33,990	52.7	1,594	38.1	1,117	45.4
Upper-income	12,680	17.8	11,811	18.3	494	11.8	375	15.2
Tract not reported	0	0.0	0	0.0	0	0.0	0	0.0
Total AA	71,110	100.0	64,469	100.0	4,181	100.0	2,460	100.0
Percentage of Total Businesses		90.7		5.9		3.5		
2014 Median Family Income ⁷			2014 Median Housing Value ⁸					
King County			\$75,834	King County			\$449,600	
Pierce County			\$60,496	Pierce County			\$231,900	
Thurston County			\$61,609	Thurston County			\$231,400	
2014 HUD Adjusted Median Family Income ⁹			2014 Unemployment Rate ¹⁰					
King County			\$88,300	King County			4.7%	
Pierce County			\$67,000	Pierce County			7.0%	
Thurston County			\$74,200	Thurston County			6.5%	

⁷ U.S. Census Bureau, American Community Survey 1 Yr. Estimates, DP03, 2014; available from: <http://factfinder2.census.gov>.

⁸ Runstad Center for Real Estate Studies, Washington State Housing Market, Median Home Prices; available from: <http://realestate.washington.edu/research/wcrer/reports/>.

⁹ U.S. Department of Housing and Urban Development, Adjusted Median Family Income; available from: <http://www.huduser.org/portal/datasets/il/il14/index.html>.

¹⁰ U.S. Bureau of Labor Statistics, Local Area Unemployment Statistics by County; available from: <http://data.bls.gov/cgi-bin/dsrv?la>.

EXHIBIT 4 ASSESSMENT AREA DEMOGRAPHICS KING-PIERCE-THURSTON 2015 2010 U.S. CENSUS AND 2015 DUN AND BRADSTREET DATA								
Income Categories	Tract Distribution		Families by Tract Income		Families < Poverty Level as % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low-income	16	4.8	13,619	3.4	3,362	24.7	86,402	21.5
Moderate-income	80	24.0	88,734	22.1	13,394	15.1	76,322	19.0
Middle-income	175	52.4	225,513	56.1	13,207	5.9	92,013	22.9
Upper-income	61	18.3	74,265	18.5	2,431	3.3	147,394	36.7
Tract not reported	2	0.6	0	0.0	0	0.0	0	0.0
Total AA	334	100.0	402,131	100.0	32,394	8.1	402,131	100.0
Income Categories	Housing Units by Tract	Housing Types by Tract Income						
		Owner-Occupied		Renter-occupied		Vacant		
		#	%	#	%	#	%	
Low-income	27,775	6,804	1.8	24.5	18,479	66.5	2,492	9.0
Moderate-income	160,654	67,764	17.6	42.2	80,655	50.2	12,235	7.6
Middle-income	348,369	229,099	59.4	65.8	96,345	27.7	22,925	6.6
Upper-income	108,018	81,987	21.3	75.9	19,655	18.2	6,376	5.9
Tract not reported	0	0	0.0	0.0	0	0.0	0	0.0
Total AA	644,816	385,654	100.0	59.8	215,134	33.4	44,028	6.8
Income Categories	Total Businesses by Tract	Businesses by Tract Income & Revenue Size						
		Less Than or Equal to \$1 Million		Greater than \$1 Million		Revenue Not Reported		
		#	%	#	%	#	%	
Low-income	4,681	6.1	4,044	5.6	620	13.4	17	5.1
Moderate-income	18,409	24.0	16,591	23.1	1,712	36.9	106	31.7
Middle-income	39,870	52.0	38,015	53.0	1,748	37.6	107	32.0
Upper-income	13,694	17.9	13,027	18.2	563	12.1	104	31.1
Tract not reported	0	0.0	0	0.0	0	0.0	0	0.0
Total AA	76,654	100.0	71,677	100.0	4,643	100.0	334	100.0
Percentage of Total Businesses		93.5		6.1		0.4		
2015 Median Family Income ¹¹			2015 Median Housing Value ¹²					
King County			King County			King County		
Pierce County			Pierce County			Pierce County		
Thurston County			Thurston County			Thurston County		
2013 HUD Adjusted Median Family Income ¹³			2015 Unemployment Rate ¹⁴					
King County			King County			King County		
Pierce County			Pierce County			Pierce County		
Thurston County			Thurston County			Thurston County		

¹¹ U.S. Census Bureau, American Community Survey 1 Yr. Estimates, DP03, 2015; available from: <http://factfinder2.census.gov>.

¹² Runstad Center for Real Estate Studies, Washington State Housing Market, Median Home Prices; available from: <http://realestate.washington.edu/research/wcrer/reports/>.

¹³ U.S. Department of Housing and Urban Development, Adjusted Median Family Income; available from: <http://www.huduser.org/portal/datasets/il/il15/index.html>.

¹⁴ U.S. Bureau of Labor Statistics, Local Area Unemployment Statistics by County; available from: <http://data.bls.gov/cgi-bin/dsrv?la>.

EXHIBIT 5 ASSESSMENT AREA DEMOGRAPHICS KING-PIERCE-THURSTON 2016 2010 U.S. CENSUS AND 2016 DUN AND BRADSTREET DATA								
Income Categories	Tract Distribution		Families by Tract Income		Families < Poverty Level as % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low-income	16	4.8	13,619	3.4	3,362	24.7	86,402	21.5
Moderate-income	80	24.0	88,734	22.1	13,394	15.1	76,322	19.0
Middle-income	175	52.4	225,513	56.1	13,207	5.9	92,013	22.9
Upper-income	61	18.3	74,265	18.5	2,431	3.3	147,394	36.7
Tract not reported	2	0.6	0	0.0	0	0.0	0	0.0
Total AA	334	100.0	402,131	100.0	32,394	8.1	402,131	100.0
Income Categories	Housing Units by Tract	Housing Types by Tract Income						
		Owner-Occupied		Renter-occupied		Vacant		
		#	%	#	%	#	%	
Low-income	27,775	6,804	1.8	24.5	18,479	66.5	2,492	9.0
Moderate-income	160,654	67,764	17.6	42.2	80,655	50.2	12,235	7.6
Middle-income	348,369	229,099	59.4	65.8	96,345	27.7	22,925	6.6
Upper-income	108,018	81,987	21.3	75.9	19,655	18.2	6,376	5.9
Tract not reported	0	0	0.0	0.0	0	0.0	0	0.0
Total AA	644,816	385,654	100.0	59.8	215,134	33.4	44,028	6.8
Income Categories	Total Businesses by Tract	Businesses by Tract Income & Revenue Size						
		Less Than or Equal to \$1 Million		Greater than \$1 Million		Revenue Not Reported		
		#	%	#	%	#	%	
Low-income	4,214	6.3	3,588	5.8	597	13.0	29	5.7
Moderate-income	16,061	24.1	14,213	23.0	1,711	37.3	137	26.8
Middle-income	34,397	51.5	32,473	52.7	1,732	37.8	192	37.6
Upper-income	12,090	18.1	11,389	18.5	548	11.9	153	29.9
Tract not reported	0	0.0	0	0.0	0	0.0	0	0.0
Total AA	66,762	100.0	61,663	100.0	4,588	100.0	511	100.0
Percentage of Total Businesses		92.4		6.9		0.8		
2016 Median Family Income ¹⁵			2016 Median Housing Value ¹⁶					
King County			\$86,095			King County		
Pierce County			\$64,434			Pierce County		
Thurston County			\$65,783			Thurston County		
2016 HUD Adjusted Median Family Income ¹⁷			2016 Unemployment Rate ¹⁸					
King County			\$90,300			King County		
Pierce County			\$72,300			Pierce County		
Thurston County			\$73,600			Thurston County		

¹⁵ U.S. Census Bureau, American Community Survey 1 Yr. Estimates, DP03, 2016; available from: <http://factfinder2.census.gov>.

¹⁶ Runstad Center for Real Estate Studies, Washington State Housing Market, Median Home Prices; available from: <http://realestate.washington.edu/research/wcrer/reports/>.

¹⁷ U.S. Department of Housing and Urban Development, Adjusted Median Family Income; available from: <http://www.huduser.org/portal/datasets/il/il16/index.html>.

¹⁸ U.S. Bureau of Labor Statistics, Local Area Unemployment Statistics by County; available from: <http://data.bls.gov/cgi-bin/dsrv?la>.

EXHIBIT 6 ASSESSMENT AREA DEMOGRAPHICS KING-PIERCE-THURSTON 2017 2010 U.S. CENSUS AND 2017 DUN AND BRADSTREET DATA								
Income Categories	Tract Distribution		Families by Tract Income		Families < Poverty Level as % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low-income	24	7.2	24,693	6.0	6,901	27.9	95,321	23.1
Moderate-income	83	24.9	99,811	24.1	13,132	13.2	78,318	18.9
Middle-income	164	49.1	212,574	51.4	15,061	7.1	90,004	21.8
Upper-income	60	18.0	76,427	18.5	2,535	3.3	149,869	36.2
Tract not reported	3	0.9	7	0.0	0	0.0	0	0.0
Total AA	334	100.0	413,512	100.0	37,629	9.1	413,512	100.0
Income Categories	Housing Units by Tract	Housing Types by Tract Income						
		Owner-Occupied		Renter-occupied		Vacant		
		#	%	#	%	#	%	
Low-income	48,546	12,227	3.2	25.2	32,174	66.3	4,145	8.5
Moderate-income	171,877	77,754	20.4	45.2	79,577	46.3	14,546	8.5
Middle-income	332,172	207,998	54.5	62.6	100,887	30.4	23,287	7.0
Upper-income	114,105	83,475	21.9	73.2	22,576	19.8	8,054	7.1
Tract not reported	61	8	0.0	13.1	20	32.8	33	54.1
Total AA	666,761	381,462	100.0	57.2	235,234	35.3	50,065	7.5
Income Categories	Total Businesses by Tract	Businesses by Tract Income & Revenue Size						
		Less Than or Equal to \$1 Million		Greater than \$1 Million		Revenue Not Reported		
		#	%	#	%	#	%	
Low-income	5,950	8.9	5,027	8.2	875	19.1	48	9.4
Moderate-income	17,115	25.6	15,532	25.2	1,469	32.0	114	22.3
Middle-income	31,772	47.6	29,771	48.3	1,737	37.9	264	51.7
Upper-income	11,919	17.9	11,327	18.4	507	11.1	85	16.6
Tract not reported	6	0.0	6	0.0	0	0.0	0	0.0
Total AA	66,762	100.0	61,663	100.0	4,588	100.0	511	100.0
Percentage of Total Businesses		92.4		6.9		0.8		
2017 Estimated Median Family Income ¹⁹			Q3 2017 Median Housing Value ²⁰					
King County			\$95,974	King County			\$658,400	
Pierce County			\$74,510	Pierce County			\$338,400	
Thurston County			\$76,283	Thurston County			\$289,800	
2017 HUD Adjusted Median Family Income ²¹			October 2017 Unemployment Rate ²²					
King County			\$96,000	King County			3.7%	
Pierce County			\$74,500	Pierce County			4.6%	
Thurston County			\$76,300	Thurston County			4.3%	

¹⁹ U.S. Department of Housing and Urban Development, Median Family Income Estimate; available from: <http://www.huduser.org/portal/datasets/il/il17/index.html>.

²⁰ Runstad Center for Real Estate Studies, Washington State Housing Market, Median Home Prices; available from: <http://realestate.washington.edu/research/wcrer/reports/>.

²¹ U.S. Department of Housing and Urban Development, Adjusted Median Family Income; available from: <http://www.huduser.org/portal/datasets/il/il17/index.html>.

²² U.S. Bureau of Labor Statistics, Local Area Unemployment Statistics by County; available from: <http://data.bls.gov/cgi-bin/dsrv?la>.

Economic Conditions

King County's economy successfully recovered from the Great Recession and continues to expand as one of the most vibrant economies in the West. The county's economy is diverse and powered by broad industry sectors such as trade and manufacturing, aerospace, and high technology.²³ King County is home to the Port of Seattle, which is the largest port in the Pacific Northwest. Seattle is the third largest export market in the United States, and in 2016, goods exported from Seattle totaled \$61.9 billion.²⁴ Its proximity to major ports attracts businesses to Seattle from diverse sectors. King County is a leader in the aerospace and high technology industry, with the two largest employers in the county being the Boeing Company and Microsoft Corporation.²⁵ Several Fortune 500 companies such as Costco Wholesale, Amazon.com, Starbucks, and Nordstrom are headquartered in King County and contribute significantly to the economy.²⁶ With its booming innovation economy and highly-skilled workforce, Seattle continued to attract businesses and show consistent growth in employment.

Similar to King County, Pierce County experienced economic expansion during the review period. Pierce County is the state's second largest labor market behind King County, and its economy is largely driven by trade, defense, and health services. Pierce County's Port of Tacoma is an important economic engine for the county and is a major center for bulk and heavy-lift cargoes. The Ports of Tacoma and Seattle have formed the Northwest Seaport Alliance, making it the third largest container gateway in North America.²⁷ The defense industry is another major economic driver of the county. The Joint Base Lewis-McChord is Pierce County's largest employer with nearly 10,000 civilian employees. Due to the large military presence, there is a stable base of demand for housing and consumer industries.²⁸ Finally, Pierce County is home to major health care facilities. Health care providers are the county's largest private employers and continued to report strong employment counts. In addition to the county's diverse sectors contributing to the growth of the economy, rising in-migration from Seattle, Olympia, and nearby counties in the Puget Sound region amplified spending at local businesses and drove greater demand for financial services and healthcare due to low business costs.²⁹

Thurston County has also recovered from the Great Recession and experienced economic expansion. The local economy is largely driven by the public sector with the state of Washington being the largest employer in Thurston County. Healthcare is another economic driver in the county, and the industry experienced growth due to greater insurance coverage and an aging population.³⁰ Thurston County's favorable living costs, low office rents, and labor costs attracted businesses from Seattle. As a result, the job count was at an all-time high and robust hiring has led to rapid growth in high-tech industries.³¹

²³ Moody's Précis Report, Seattle-Bellevue-Everett, August 2017.

²⁴ U.S. Department of Commerce, International Trade Administration, Seattle Metro Report; available from: <https://www.trade.gov/mas/ian/metroreports/Seattle.pdf>.

²⁵ Economic Development Council of Seattle and King County, King County Economy; available from: <http://www.edc-seaking.org/service/economic-data/economic-basics>.

²⁶ Ibid.

²⁷ State of Washington, Employment Security Department, Pierce County Profile; available from: <https://fortress.wa.gov/esd/employmentdata/reports-publications/regional-reports/county-profiles/pierce-county-profile>.

²⁸ Moody's Précis Report, Tacoma-Lakewood, August 2017.

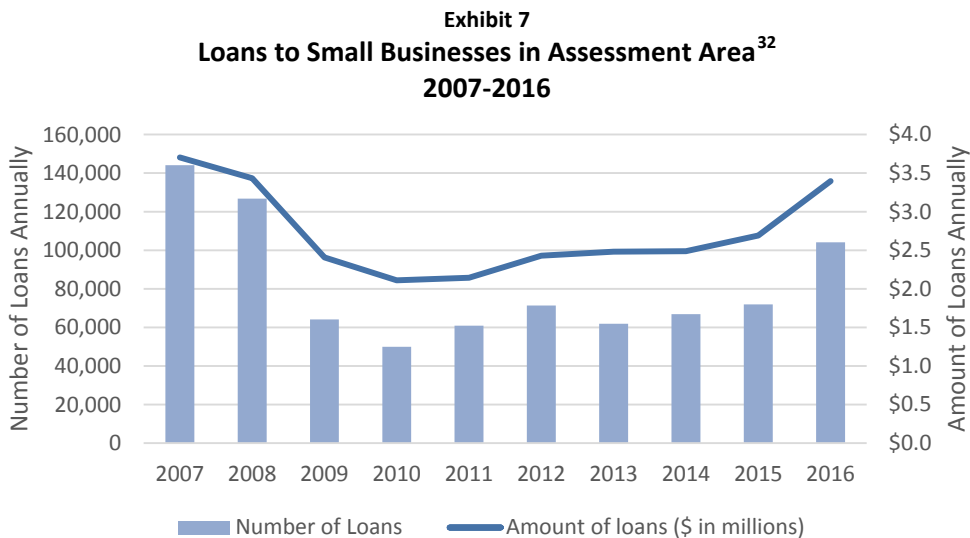
²⁹ Ibid.

³⁰ Moody's Précis Report, Olympia-Tumwater, August 2017.

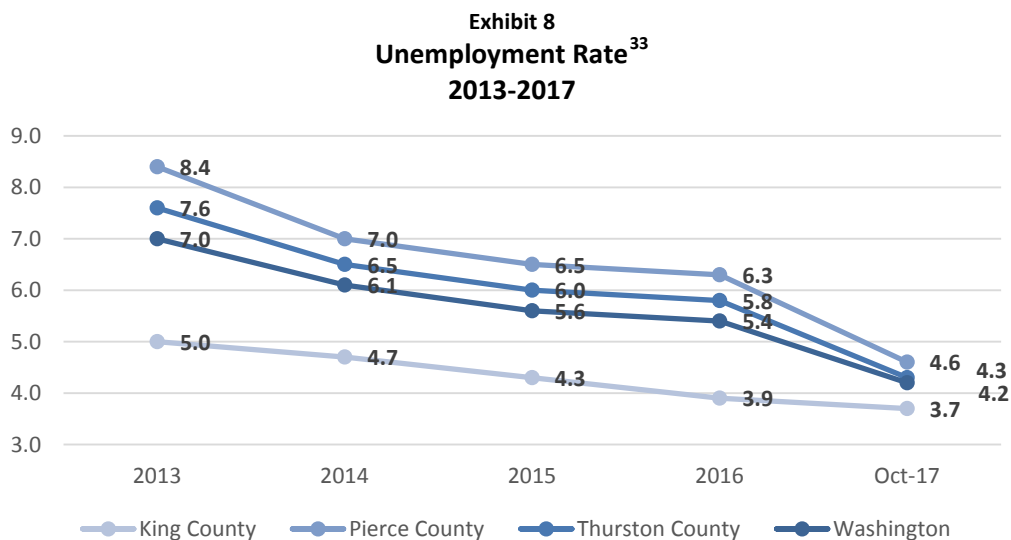
³¹ Ibid.

Overall, King, Pierce and Thurston County experienced economic expansion due to growth in their diverse industries and growth in the Puget Sound region.

The overall economic improvement in the assessment area can be seen in small business lending. Small business loan data reported by banks subject to the CRA shows that lending levels improved. As depicted in Exhibit 7, from 2015 to 2016, the number of loans to small businesses in the assessment area increased from 71,950 to 104,092, and the amount increased from \$2.6 to \$3.3 million. Lending to small businesses plays a critical role in the economy given that small businesses represented 92.4 percent of all businesses in the assessment area as depicted in Exhibit 6.



As depicted in Exhibit 8 below, the unemployment rate of the three counties in the assessment area was consistently lower than the statewide rate. As of October 2017, King, Pierce and Thurston County had low unemployment rates ranging from 3.7 to 4.3 percent, also indicating an improving economy.

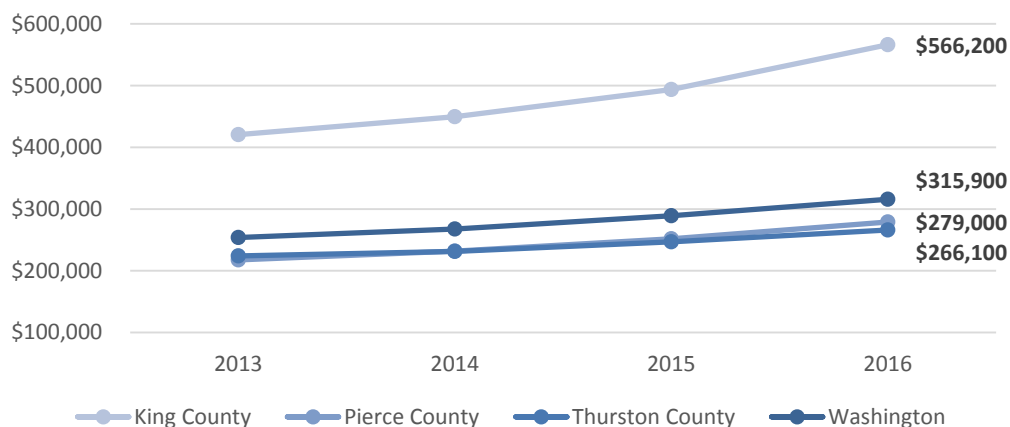


³² Aggregate CRA Small Business data reports available from: <http://www.ffiec.gov/craadweb/national.aspx>.

³³ U.S. Bureau of Labor Statistics, Local Area Unemployment Statistics by County; available from: <http://data.bls.gov/cgi-bin/dsrv?la>.

As depicted in Exhibit 9 below, the prices of homes in the assessment area increased significantly during the review period. In 2016, the median home price in King County was \$566,200 compared to \$266,100 in Washington State. King County home prices are rising at their fastest pace in four years largely due to its historic population growth. With more people having moved to the Puget Sound area in the last year than in any other year this century, home prices were at a record high and supply of homes available continued to dwindle.³⁴ House price growth continued outside of King County, with median home prices in Pierce and Thurston County growing steadily as well. In addition, King County possesses the lowest housing affordability index value of 93.4 in the state of Washington.³⁵ A value less than 100 indicates that families earning the national median income do not have enough money to qualify for a mortgage on a median-priced home, suggesting that homes in King County are the least affordable in the Washington.

Exhibit 9
Median Home Prices³⁶
2013-2016



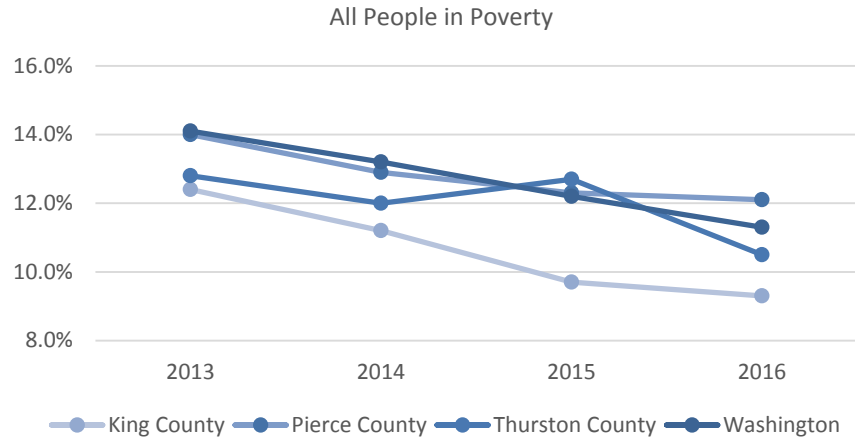
³⁴ Rosenberg, Mike, “More Records fall: Median home price hits \$722,000 in Seattle and \$880,000 on Eastside,” The Seattle Times; available from: <https://www.seattletimes.com/business/real-estate/more-records-fall-median-home-price-hits-722000-in-seattle-and-880000-on-eastside/>.

³⁵ Runstad Center for Real Estate Studies, Washington State’s Housing Market 3rd Quarter 2016; available from: realestate.washington.edu/wp-content/uploads/2016/07/wshmsq316.pdf.

³⁶ University of Washington, Runstad Center for Real Estate Studies, Median Home Prices, Annual, 2010-2016; available from: <http://realestate.washington.edu/research/wcrer/reports/>.

As depicted in Exhibit 10 below, the poverty rate and food stamp usage rate within the assessment area dropped during the review period. King, Pierce and Thurston County's poverty and food stamp usage rates are lower than the statewide rates. Nevertheless, the rates remain well over 8.0 percent and indicate that large portions of the population are struggling.

Exhibit 10
Poverty and Food Stamp Usage Rates³⁷
2013-2016



³⁷ U.S. Census Bureau, American Community Survey 1 Year Estimates, DP03, 2013-2016; available from: <http://factfinder2.census.gov>.

Credit and Community Development Needs

The economic data previously discussed as well as feedback from community contacts indicate that small businesses in the assessment area face challenges in accessing credit and that some level of small business credit needs remain unmet by area banks. According to the 2016 Small Business Credit Survey, only 33 percent of smaller firm applicants received the full amount of financing dollars desired and 29 percent received none.³⁸ Of the financing and credit products sought by businesses, 86 percent of applicants applied for either a business loan or line of credit.³⁹ In addition, small businesses are most in need of small dollar loans that are less than \$100,000 for operating expenses and expansion purposes.⁴⁰

High housing costs and low rental affordability highlight the need for affordable housing development and financing within the assessment area. Information obtained from community contacts suggest that escalating housing costs make it increasingly difficult for people to rent or own homes, especially in King County and surrounding areas. Housing development has struggled to keep pace with dramatic population growth, and rental vacancies have been very low for several years. However, there is a lack of equity in terms of tax credits and a shortage of gap financing to develop and operate affordable homes and building projects.

The prevalence of poverty and increasing housing costs discussed previously highlight the importance of community service organizations within the bank's communities. A review of community contact information indicates that the community can greatly benefit from programs such as rental-assistance and financial education. There is an opportunity for banks to support the wide range of community needs in the assessment area from affordable housing to access to credit for small businesses by engaging in community development activities and/or partnering with organizations that address the aforementioned needs of those most vulnerable in the community.

³⁸ 2016 Small Business Credit Survey, Report on Employer Firms, available from:
<https://www.newyorkfed.org/medialibrary/media/smallbusiness/2016/SBCS-Report-EmployerFirms-2016.pdf>.

³⁹ Ibid.

⁴⁰ Ibid.

Scope of Examination

Commencement's performance was evaluated using the *Interagency Intermediate Small Institution CRA Examination Procedures*. Performance for intermediate small banks is evaluated under two tests that consider the bank's lending and community development activities. The bank has one assessment area, comprised of the southern portion of King County, Pierce County, and Thurston County, which was subject to a full scope review.

LENDING TEST

The lending test portion of the evaluation was based on the following performance criteria:

- Loan volume compared to deposits (*Loan-to-Deposit Ratio*);
- Lending inside versus outside of the assessment area (*Lending in Assessment Area*);
- Dispersion of lending throughout the assessment area (*Lending Distribution by Geography*); and
- Lending to businesses of different revenue sizes (*Lending Distribution by Business Revenue*).

Commencement's responsiveness to consumer complaints was not evaluated since the bank did not receive any CRA-related complaints during the review period.

The lending test evaluation was based on small business loans originated or renewed from July 1, 2016, through June 30, 2017, and Home Mortgage Disclosure Act (HMDA) reportable loans originated or purchased from July 1, 2013 through December 31, 2016. The evaluation was based on a sample of 106 small business loans extended within the bank's assessment area out of 224 small business loans made during the 12-month review period. There were insufficient volumes of home purchase, home improvement, refinance, and multifamily loans in the bank's assessment area to perform meaningful analysis. While these products were considered during the review, they did not influence Commencement's overall assessment due to the limited volumes involved.

COMMUNITY DEVELOPMENT TEST

The community development test included an evaluation of Commencement's level of community development activities in relation to local needs and opportunities as well as the bank's capacity to participate in such activities. The evaluation was based on qualified community development loans, investments, donations, and services from October 7, 2013, through January 29, 2018.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

Lending Test

Commencement’s overall performance under the lending test is satisfactory. Lending levels relative to deposits are more than reasonable and a substantial majority of all loans were extended within the bank’s assessment areas. Lending to business of different revenue sizes is also reasonable and small business loans reflect an excellent penetration in geographies of all income levels including low- and moderate-income areas.

LOAN-TO-DEPOSIT RATIO

Commencement’s loan-to-deposit ratio is more than reasonable. Since the previous CRA examination, the bank’s average loan-to-deposit ratio is 90.6 percent. This ratio compares favorably with the state average and national peer loan-to-deposit ratios of 80.0 percent and 79.0 percent, respectively.

LENDING IN ASSESSMENT AREA

A substantial majority of the bank’s lending was extended within Commencement’s assessment area. As shown in Exhibit 11 below, a substantial majority of small business loans evaluated were extended within the bank’s assessment area.

EXHIBIT 11 LENDING INSIDE AND OUTSIDE THE ASSESSMENT AREA ⁴¹								
Loan Type	Inside				Outside			
	#	%	\$ ('000s)	%	#	%	\$ ('000s)	%
Small Business	101	95.3	18,750	92.4	5	4.7	1,541	7.6
Total Business Related	101	95.3	18,750	92.4	5	4.7	1,541	7.6
HMDA Home Purchase	5	71.4	1,235	65.6	2	28.6	649	34.4
HMDA Home Improvement	2	66.7	172	77.1	1	33.3	51	22.9
HMDA Refinance	14	100.0	4,853	100.0	0	0.0	0	0.0
HMDA Multifamily	10	100.0	11,248	100.0	0	0.0	0	0.0
Total HMDA Related	31	91.2	17,508	96.2	3	8.8	700	3.8
Total Loans	132	94.3	36,258	94.2	8	5.7	2,241	5.8

⁴¹ Small business figures are based on a sample of loans originated from July 1, 2016, through June 30, 2017. The HMDA-related figures are based on loans originated from July 1, 2013, through December 31, 2016.

LENDING DISTRIBUTION BY GEOGRAPHY

The overall geographic distribution of small business lending is excellent. As shown in Exhibit 12 below, small business loans were extended within census tracts of all income categories, with no conspicuous gaps or anomalies in the lending patterns. Lending in moderate-income census tracts was particularly strong, exceeding the percentage of businesses and aggregate lending.

EXHIBIT 12 GEOGRAPHIC DISTRIBUTION OF SMALL BUSINESS LOANS								
Census Tract	Low		Moderate		Middle		Upper	
	#	%	#	%	#	%	#	%
Pierce-King-Thurston Assessment Area 2016								
Bank Lending	2	4.5	13	29.5	18	40.9	11	25.0
Aggregate Lending	2,291	5.3	9,317	21.4	22,753	52.3	9,156	21.0
Business Concentration	4,214	6.3	16,061	24.1	34,397	51.5	12,090	18.1
Pierce-King-Thurston Assessment Area 2017								
Bank Lending	7	12.3	22	38.6	20	35.1	8	14.0
Aggregate Lending	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Business Concentration	5,950	8.9	17,115	25.6	31,772	47.6	11,919	17.9

LENDING DISTRIBUTION BY BUSINESS REVENUE

The distribution of lending to small businesses is reasonable. As reflected in Exhibit 13 below, Commencement's percentage lending to businesses with gross revenues of \$1.0 million or less compared favorably to the performance of the aggregate market. In addition, the bank's lending helped address an identified need for small dollar loans by extending over 70.0 percent of loans in amounts under \$250,000 and over 47.0 percent of loans in amounts of \$100,000 or less.

EXHIBIT 13 BUSINESS REVENUE DISTRIBUTION OF SMALL BUSINESS LOANS							
Year	Bank Lending #	Lending to Businesses with Revenue <=\$1 Million			Originations Regardless of Revenue Size by Loan Amount		
		Bank Lending (%)	Businesses <=\$1M in Revenue (%)	Aggregate Lending (%)	<=\$100K (%)	> \$100K & <=\$250K (%)	>250K & <=\$1M (%)
2016	44	40.9	92.4	37.8	47.7	25.0	27.3
2017	57	45.6	92.4	N/A	50.9	26.3	22.8

RESPONSE TO COMPLAINTS

Commencement did not receive any CRA-related complaints during the review period. Accordingly, the bank's performance in responding to complaints was not considered in evaluating its overall CRA performance.

Community Development Test

Commencement’s performance under the community development test is satisfactory. As shown in Exhibit 14, the bank provided an adequate level of community development loans, investments, and services. Bank employees provided over 550 community development service hours to organizations serving low-and moderate-income geographies while investments and donations supported affordable housing, the revitalization of low-or moderate-income areas and helped create over 25 jobs.

EXHIBIT 14 COMMUNITY DEVELOPMENT ACTIVITIES								
Assessment Area	Loans		Investments				Services	
			Prior Period		Current Period			
	#	\$ ('000s)	#	\$ ('000s)	#	\$ ('000s)	#	Hours
King-Pierce-Thurston	10	12,954	N/A	N/A	55	2,402	15	812
Broader Statewide or Regional Area	0	0	N/A	N/A	0	0	0	0
Total	10	12,954	N/A	N/A	55	2,402	15	812

Activities included, but were not limited to the following:

- A \$4.0 million loan extension in partnership with the U.S. Department of Agriculture (USDA)’s Business & Industry loan guarantee for leasehold improvements and equipment. This loan fostered economic development by retaining 23 full time jobs and creating 12 new full time jobs in an area targeted for revitalization by the City of Olympia.
- A \$2.7 million loan to provide financing for the conversion of a retirement home into a community college residence hall. This loan helps to stabilize a moderate-income census tract by providing student housing.
- \$2.2 million in investments in securities backed by a total of ten mortgage loans for moderate-income individuals in Thurston and Pierce counties.
- \$12,000 in donations and 300 service hours to an organization with a mission to assist low-income women and families by providing an average of three months of rental or mortgage assistance. This organization also provides job training, life skill development, and assistance with financial literacy. Women and individuals can receive one-on-one career coaching, transition and follow-up services for childcare and emergency needs, and job retention or wage progression coaching, among other services.
- Another \$14,500 in donations and 246 service hours to an organization that works to eliminate gang activities in high-risk neighborhoods in the greater Tacoma area. This organization sponsors youth leadership teams, organizes block watches, creates safer routes to schools, and provides substance abuse and violence prevention through educational initiatives.

Fair Lending or Other Illegal Practices Review

Concurrent with this CRA evaluation, a review of the bank's compliance with consumer protection laws and regulations was conducted. The review found no evidence of violations of the substantive provisions of anti-discrimination, fair lending, or other credit practice rules, laws or regulations.

GLOSSARY OF TERMS

Aggregate lending: The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

Census tract: A small subdivision of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan statistical areas. Census tracts usually have between 2,500 and 8,000 persons, and their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

Community development: All Agencies have adopted the following language. Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 CFR 121.301) or have gross annual revenues of \$1 million or less; or, activities that revitalize or stabilize low- or moderate-income geographies.

Effective September 1, 2005, the Board of Governors of the Federal Reserve System, Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation have adopted the following additional language as part of the revitalize or stabilize definition of community development. Activities that revitalize or stabilize:

- (i) Low- or moderate-income geographies;
- (ii) Designated disaster areas; or
- (iii) Distressed or underserved nonmetropolitan middle-income geographies designated by the Board, Federal Deposit Insurance Corporation, and Office of the Comptroller of the Currency, based on:
 - a. Rates of poverty, unemployment, and population loss; or
 - b. Population size, density, and dispersion. Activities that revitalize and stabilize geographies designated based on population size, density, and dispersion if they help to meet essential community needs, including needs of low- and moderate-income individuals.

Consumer loan(s): A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

Family: Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family, which is further classified into 'male householder' (a family with a male householder and no wife present) or 'female householder' (a family with a female householder and no husband present).

Full-scope review: Performance under the lending and community development tests is analyzed considering performance context, quantitative factors (for example, geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (for example, responsiveness).

Geography: A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

Home Mortgage Disclosure Act (HMDA): The statute that requires certain mortgage lenders that do business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applications, the amount of loan requested, and the disposition of the application (for example, approved, denied, and withdrawn).

Home mortgage loans: Includes home purchase and home improvement loans as defined in the HMDA regulation. This definition also includes multifamily (five or more families) dwelling loans, loans for the purchase of manufactured homes and refinancings of home improvement and home purchase loans.

Household: Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

Limited-scope review: Performance under the lending and community development tests is analyzed using only quantitative factors (for example, geographic distribution, borrower distribution, total number and dollar amount of investments, and branch distribution).

Low-income: Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent, in the case of a geography.

Market share: The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

Metropolitan area (MA): A metropolitan statistical area (MSA) or a metropolitan division (MD) as defined by the Office of Management and Budget. A MSA is a core area containing at least one urbanized area of 50,000 or more inhabitants, together with adjacent communities having a high degree of economic and social integration with that core. A MD is a division of a MSA based on specific criteria including commuting patterns. Only a MSA that has a population of at least 2.5 million may be divided into MDs.

Middle-income: Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 percent and less than 120 percent, in the case of a geography.

Moderate-income: Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 percent and less than 80 percent, in the case of a geography.

Multifamily: Refers to a residential structure that contains five or more units.

Other products: Includes any unreported optional category of loans for which the institution collects and maintains data for consideration during a CRA examination. Examples of such activity include consumer loans and other loan data an institution may provide concerning its lending performance.

Owner-occupied units: Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

Qualified investment: A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

Rated area: A rated area is a state or multistate metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multistate metropolitan area, the institution will receive a rating for the multistate metropolitan area.

Small loan(s) to business(es): A loan included in 'loans to small businesses' as defined in the Consolidated Report of Condition and Income (Call Report) and the Thrift Financial Reporting (TFR) instructions. These loans have original amounts of \$1 million or less and typically are either secured by nonfarm or nonresidential real estate or are classified as commercial and industrial loans. However, thrift institutions may also exercise the option to report loans secured by nonfarm residential real estate as "small business loans" if the loans are reported on the TFR as nonmortgage, commercial loans.

Small loan(s) to farm(s): A loan included in 'loans to small farms' as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, or are classified as loans to finance agricultural production and other loans to farmers.

Upper-income: Individual income that is more than 120 percent of the area median income, or a median family income that is more than 120 percent, in the case of a geography.