



MERGER PROPOSED – YOUR VOTE IS VERY IMPORTANT

To Our Respective Shareholders:

The boards of directors of Commencement Bank (“Commencement”) and Thurston First Bank (“Thurston”) have approved an Agreement and Plan of Reorganization dated July 8, 2016 (the “Merger Agreement”). Subject to the terms and conditions of the Merger Agreement, Thurston will be merged with and into Commencement, with Commencement as the surviving entity, and the separate corporate existence of Thurston shall thereafter cease (the “Merger”).

To consummate the transaction, the shareholders of Commencement and Thurston must approve the Merger. Approval of the Merger, or the principal terms of the Merger Agreement, by Thurston shall mean approval of the Merger by the shareholders of Thurston owning two-thirds of the outstanding shares of Thurston common stock. Approval of the Merger, or the principal terms of the Merger Agreement, by Commencement shall mean approval of the Merger by the shareholders of Commencement owning two-thirds of the outstanding shares of Commencement common stock. This letter is accompanied by the attached joint proxy statement/offering memorandum, which the Commencement and Thurston boards of directors are providing to solicit your proxy to vote for the approval of the Merger at Commencement’s and Thurston’s special shareholder meetings, each to be held on October 26, 2016.

If the required shareholder and regulatory approvals are obtained and the Merger is subsequently completed, upon effectiveness, the Merger should create a business bank with approximately \$328 million in assets. We believe that the shareholders of Commencement and Thurston will benefit from the increased earnings power of the resulting bank and our improved ability to generate profitable growth going forward.

If the Merger is completed, each share of Thurston common stock will be converted into the right to receive 0.9024 shares of Commencement common stock, with cash paid for fractional shares (the “Merger Consideration”).

Post-merger, Commencement shareholders will continue to hold and own their existing shares of Commencement common stock. Based on a number of assumptions described in this joint proxy statement/offering memorandum and the Merger Agreement, approximately 1,221,601 shares of Commencement common stock, will be issued to Thurston shareholders as a result of the proposed Merger.

At our respective shareholder meetings, we will ask our shareholders to vote on the proposed Merger and other related proposals described in the respective shareholder meeting notices that follow this letter. This joint proxy statement/offering memorandum describes each of the shareholder meetings, the proposed Merger and the Merger Agreement, and includes other important information about the proposals that will be presented for action at the respective shareholder meetings. **Please read the entire document carefully, including the section entitled “Risk Factors” beginning on page 22.**

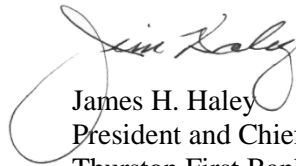
Your vote is very important. Not voting will have the same effect as voting against the Merger, so whether or not you plan to attend the special meeting, please promptly return your completed and executed proxy card so that your shares are voted at the special meeting. We cannot complete the proposed Merger unless shareholders owning two-thirds of the outstanding shares of both banks approve the Merger.

Our boards of directors recommend that the respective shareholders of Commencement and Thurston vote “FOR” the proposed Merger. We strongly support this combination and believe it to be in the best interests of the shareholders of both companies.

This document serves as the notice of special meeting and joint proxy statement/offering memorandum of Thurston and Commencement and as an offering memorandum for the Commencement common stock to be issued to shareholders of Thurston in exchange for the Thurston common stock under the Merger Agreement. This document contains a more complete description of the special meetings and the principal terms of the proposed merger, as described in the Merger Agreement. We urge you to review this entire document carefully.



H. R. Russell
President and Chief Executive Officer
Commencement Bank



James H. Haley
President and Chief Executive Officer
Thurston First Bank

The securities offered hereby have not been registered under the Securities Act of 1933, as amended (the “Securities Act”).

NONE OF THE FEDERAL DEPOSIT INSURANCE CORPORATION (THE “FDIC”), THE FEDERAL RESERVE BANK (THE “FRB”), THE SECURITIES AND EXCHANGE COMMISSION (THE “SEC”) OR THE DEPARTMENT OF FINANCIAL INSTITUTIONS DIVISION OF BANKS FOR THE STATE OF WASHINGTON (THE “DFI”) HAVE APPROVED OR DISAPPROVED THE SECURITIES TO BE ISSUED UNDER THIS JOINT PROXY STATEMENT/OFFERING MEMORANDUM, AND NONE OF THE FDIC, FRB, SEC OR THE DFI HAVE DETERMINED IF THIS JOINT PROXY STATEMENT/OFFERING MEMORANDUM IS ACCURATE OR ADEQUATE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

THE SECURITIES TO BE ISSUED BY COMMENCEMENT UNDER THIS JOINT PROXY STATEMENT/OFFERING MEMORANDUM IN CONNECTION WITH THE MERGER ARE NOT SAVINGS ACCOUNTS, DEPOSITS OR OTHER OBLIGATIONS OF ANY BANK OR SAVINGS ASSOCIATION. THESE SECURITIES ARE NOT INSURED BY THE FDIC OR ANY OTHER AGENCY, AND ARE SUBJECT TO INVESTMENT RISK, INCLUDING POSSIBLE LOSS OF PRINCIPAL.

This joint proxy statement/offering memorandum does not constitute an offer to sell or solicitation of an offer to buy any Commencement common stock in any jurisdiction to any person to whom it is unlawful to make such offer or solicitation in such jurisdiction.

You should not assume that the information contained in this joint proxy statement/offering memorandum is accurate as of any date other than the date of this document. No person has been authorized to give any information or to make any representations or warranties, either express or implied, other than those that may be contained in this document or other documents included herein, and, if given or made, such information or representations and warranties must not be relied upon as having been authorized by us.

Joint Proxy Statement/Offering Memorandum dated September 9, 2016

THURSTON FIRST BANK
600 Franklin Street SE, Suite 102
Olympia, Washington 98501

NOTICE OF SPECIAL MEETING OF SHAREHOLDERS

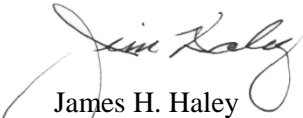
A special meeting of shareholders of Thurston First Bank (“Thurston”) will be held on Wednesday, October 26, 2016, at 6:00 p.m. local time at the Waterstreet Café, 610 Water Street SW, Olympia Washington 98501 (the “Thurston Meeting”), for the following purposes:

1. To approve the principal terms of the Merger, as described in the Agreement and Plan of Reorganization, dated as of July 8, 2016 (the “Merger Agreement”), between Commencement Bank (“Commencement”) and Thurston, pursuant to which Thurston will be merged with and into Commencement, with Commencement as the surviving entity, and the separate corporate existence of Thurston shall cease (the “Merger”), all on and subject to the terms and conditions contained therein (Thurston Proposal 1);
2. To adjourn or postpone the Thurston Meeting to a later date or dates, if necessary, to permit further solicitation of proxies if there are not sufficient votes at the time of the Thurston Meeting to approve the Merger Agreement (Thurston Proposal 2); and
3. To transact any other business that properly comes before the Thurston Meeting.

Only shareholders of record at the close of business on August 15, 2016 (the “Thurston Record Date”) will be entitled to notice of and to vote at the Thurston Meeting and any adjournments or postponements thereof. The Thurston Meeting may be adjourned or postponed from time to time upon approval of Thurston’s shareholders without any notice other than by announcement at the Thurston Meeting of the adjournment or postponement thereof, and any and all business for which notice is hereby given may be transacted at such adjourned or postponed meeting.

Shareholders of Thurston have the right to dissent from the approval of the Merger and obtain payment in cash of the appraised fair value of their shares of Thurston common stock (“Thurston Stock”) under applicable provisions of the Washington Commercial Bank Act (“WCBA”). A copy of the applicable statutory provisions of the WCBA is included as **Appendix B** to the accompanying joint proxy statement/offering memorandum and a summary of these provisions can be found under the caption “*The Merger – Dissenters’ Rights of Thurston Shareholders,*” see page 82.

By Order of the Board of Directors,


James H. Haley
President and Chief Executive Officer
Olympia, Washington
September 9, 2016

The board of directors of Thurston recommends that you vote “FOR” the approval of the principal terms of the Merger, as described in the Merger Agreement, and the adjournment or postponement of the Thurston Meeting, if necessary.

Your Vote is Very Important.

A proxy card is enclosed. Whether or not you plan to attend the Thurston Meeting, please complete, sign and date the proxy card and promptly mail it in the enclosed postage-paid envelope. You may revoke your proxy card in the manner described in the accompanying joint proxy statement/offering memorandum at any time prior to the start of the Thurston Meeting. If you attend the Thurston Meeting, you may vote in person if you wish, even if you have previously returned your proxy card. You may also vote by Internet as specified in the voting instructions provided to you.

COMMENCEMENT BANK
1102 Commerce Street
Tacoma, Washington 98402

NOTICE OF SPECIAL MEETING OF SHAREHOLDERS

A special meeting of shareholders of Commencement Bank (“Commencement”) will be held on Wednesday, October 26, 2016, at 2:00 p.m. local time at the Bank’s offices, 1102 Commerce Street, Tacoma, Washington 98402 (the “Commencement Meeting”), for the following purposes:

1. To approve the principal terms of the Merger, as described in the Agreement and Plan of Reorganization, dated as of July 8, 2016 (the “Merger Agreement”), between Commencement and Thurston First Bank (“Thurston”), pursuant to which Thurston will be merged with and into Commencement, with Commencement as the surviving entity, and the separate corporate existence of Thurston shall cease (the “Merger”), all on and subject to the terms and conditions contained therein (Commencement Proposal 1);
2. To adjourn or postpone the Commencement Meeting to a later date or dates, if necessary, to permit further solicitation of proxies if there are not sufficient votes at the time of the Commencement Meeting to approve the Merger Agreement (Commencement Proposal 2); and
3. To transact any other business that properly comes before the Commencement Meeting.

These matters are more fully described in the joint proxy statement/offering memorandum accompanying this notice. The Commencement board of directors has fixed the close of business on August 15, 2016 (the “Commencement Record Date”) as the record date for determining which shareholders have the right to receive notice of and to vote at the Commencement Meeting or any postponements or adjournments thereof.

By Order of the Board of Directors,



H. R. Russell
President and Chief Executive Officer
Tacoma, Washington
September 9, 2016

The board of directors of Commencement unanimously recommends that you vote “FOR” the approval of the principal terms of the Merger, as described in the Merger Agreement, and the adjournment or postponement of the Commencement Meeting, if necessary.

Your Vote is Very Important.

A proxy card is enclosed. Whether or not you plan to attend the Commencement Meeting, please complete, sign and date the proxy card and promptly mail it in the enclosed postage-paid envelope. You may revoke your proxy card in the manner described in the accompanying joint proxy statement/offering memorandum at any time prior to the start of the Commencement Meeting. If you attend the Commencement Meeting, you may vote in person if you wish, even if you have previously returned your proxy card. You may also vote by Internet as specified in the voting instructions provided to you.

**JOINT PROXY STATEMENT/OFFERING MEMORANDUM
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QUESTIONS AND ANSWERS ABOUT THE SPECIAL MEETINGS AND THE MERGER

Q: What are shareholders being asked to vote upon?

A: *Commencement shareholders:* At the special meeting of shareholders of Commencement (the “Commencement Meeting”), Commencement shareholders will be asked to consider and vote on proposals to:

1. approve the principal terms of the Merger, as described in the Merger Agreement by and between Commencement and Thurston, pursuant to which Thurston will be merged with and into Commencement, with Commencement as the surviving entity, and the separate corporate existence of Thurston shall cease, all on and subject to the terms and conditions contained therein (Commencement Proposal 1); and
2. approve the adjournment or postponement of the Commencement Meeting to a later date or dates, if necessary, to permit further solicitation of proxies if there are not sufficient votes at the time of the Commencement Meeting to approve the Merger Agreement (Commencement Proposal 2).

The board of directors of Commencement may also transact such other business as may properly come before the Commencement Meeting or any adjournments thereof. As of the date of this joint proxy statement/offering memorandum, Commencement’s board of directors did not know of any business to be presented at the Commencement Meeting other than the proposals described above. If any other matters should properly come before the Commencement Meeting, it is intended that the shares represented by proxies will be voted in accordance with the judgment of the persons voting such proxies on any matters for which such proxies have authority to vote.

Thurston shareholders: At the special meeting of shareholders of Thurston (the “Thurston Meeting”), Thurston shareholders will be asked to consider and vote on proposals to:

1. approve the principal terms of the Merger, as described in the Merger Agreement by and between Commencement and Thurston, pursuant to which Thurston will be merged with and into Commencement, with Commencement as the surviving entity, and the separate corporate existence of Thurston shall cease, all on and subject to the terms and conditions contained therein (Thurston Proposal 1); and
2. approve the adjournment or postponement of the Thurston Meeting to a later date or dates, if necessary, to permit further solicitation of proxies if there are not sufficient votes at the time of the Thurston Meeting to approve the Merger Agreement (Thurston Proposal 2).

The board of directors of Thurston may also transact such other business as may properly come before the Thurston Meeting or any adjournments thereof. As of the date of this joint proxy statement/offering memorandum, Thurston’s board of directors did not know of any business to be presented at the Thurston Meeting other than the proposals described above. If any other matters should properly come before the Thurston Meeting, it is intended that the shares represented by proxies will be voted in accordance with the judgment of the persons voting such proxies on any matters for which such proxies have authority to vote.

Q: Who is entitled to vote? How many votes am I entitled to?

A: Commencement shareholders: Only shareholders of record as of August 15, 2016 (the “Commencement Record Date”) may vote at the Commencement Meeting. As of the Commencement Record Date, there were 2,223,146 shares of Commencement common stock (“Commencement Stock”) outstanding held by approximately 184 shareholders of record. Holders of Commencement Stock are entitled to cast one vote for each share of Commencement Stock held by them as of the Commencement Record Date on any matter submitted to the shareholders for a vote at the Commencement Meeting.

Thurston shareholders: Only shareholders of record as of August 15, 2016 (the “Thurston Record Date”) may vote at the Thurston Meeting. As of the Thurston Record Date, there were 1,353,724 shares of Thurston common stock (“Thurston Stock”) outstanding held by approximately 380 shareholders of record. Holders of Thurston Stock are entitled to cast one vote for each share of Thurston Stock held by them as of the Thurston Record Date on any matter submitted to the shareholders for a vote at the Thurston Meeting.

Q: How many shares must be represented at the special meetings to constitute a “quorum”?

A: Commencement shareholders: A quorum is required for the Commencement Meeting to be held. The holders of a majority of the shares of Commencement Stock outstanding as of the Commencement Record Date, represented in person or by proxy, will constitute a quorum. Your shares will be counted for purposes of determining if there is a quorum, whether representing votes “FOR”, “AGAINST” or “ABSTAINED”, if you are either (i) present in person at the Commencement Meeting or (ii) have submitted a proxy by properly submitting a proxy card.

Thurston shareholders: A quorum is required for the Thurston Meeting to be held. A majority of the shares of Thurston Stock outstanding as of the Thurston Record Date, represented in person or by proxy, will constitute a quorum. Your shares will be counted for purposes of determining if there is a quorum, whether representing votes “FOR”, “AGAINST” or “ABSTAINED”, if you are either (i) present in person at the Thurston Meeting or (ii) have submitted a proxy by properly submitting a proxy card.

Q: When and where will the meetings be held?

A: The Thurston Meeting is scheduled to take place on Wednesday, October 26, 2016, at 6:00 p.m. local time at the Waterstreet Café, 610 Water Street SW, Olympia Washington 98501. The Commencement Meeting is scheduled to take place on Wednesday, October 26, 2016, at 2:00 p.m. local time at the Bank’s offices, 1102 Commerce Street, Tacoma, Washington 98402.

Q: What are my choices when voting?

A: Commencement shareholders: Commencement shareholders may vote for each proposal, against each proposal or abstain from voting on each proposal to be considered and voted upon at the Commencement Meeting.

Thurston shareholders: Thurston shareholders may vote for each proposal, against each proposal or abstain from voting on each proposal to be considered and voted upon at the Thurston Meeting.

Q: What is the vote necessary to approve each of the proposals being considered at the special meetings?

A: *Commencement shareholders:* Commencement Proposal 1 (approval of the Merger) must be approved by the affirmative vote of the holders of two-thirds of the shares of Commencement Stock outstanding on the Commencement Record Date. Commencement Proposal 2 (adjournment or postponement) must be approved by the affirmative vote of a majority of the shares of Commencement Stock represented (in person or by proxy) at the Commencement Meeting and voting. Pursuant to the terms of the voting agreements executed and delivered to Thurston, the directors and executive officers of Commencement have agreed to vote all shares of Commencement Stock beneficially owned by them “FOR” Commencement Proposal 1. Commencement shares subject to these voting agreements represent approximately 20.79% of the outstanding, eligible votes of Commencement Stock.

Thurston shareholders: Thurston Proposal 1 (approval of the Merger) must receive the affirmative vote of the holders of two-thirds of the shares of Thurston Stock outstanding on the Thurston Record Date. Thurston Proposal 2 (adjournment or postponement) must be approved by the affirmative vote of a majority of the shares of Thurston Stock represented (in person or by proxy) at the Thurston Meeting and voting. Pursuant to the terms of the voting agreements executed and delivered to Commencement, the directors and executive officers of Thurston who have executed such Voting Agreements have agreed to vote all shares of Thurston Stock beneficially owned by them “FOR” Thurston Proposal 1. Thurston shares subject to these voting agreements represent approximately 11.31% of the outstanding, eligible votes of Thurston Stock.

Q: How do the board of directors of Thurston and Commencement recommend that I vote?

A: *Commencement shareholders:* Commencement’s board of directors recommends that Commencement shareholders vote “FOR” Commencement Proposal 1 (approval of the Merger) and Commencement Proposal 2 (adjournment and postponement) (together, the “Commencement Proposals”).

Thurston shareholders: Thurston’s board of directors recommends that Thurston shareholders vote “FOR” Thurston Proposal 1 (approval of the Merger) and Thurston Proposal 2 (adjournment and postponement) (together, the “Thurston Proposals”).

Q: If my shares are held in “street name” by my broker, will my broker automatically vote my shares for me?

A: No. Your broker will not be able to vote your shares of stock on the proposals being voted upon at your respective shareholder meeting as further described herein unless you provide instructions on how to vote. Please instruct your broker how to vote your shares, following the directions that your broker provides. If you do not provide instructions to your broker on the proposals being voted upon at your respective special meeting, your shares will not be voted at such special meeting, and this will have the effect of voting “AGAINST” each proposal.

Q: What happens if I transfer my shares after the applicable record date?

A: Both the Commencement Record Date and Thurston Record Date are earlier than the expected date of completion of the Merger. Therefore, if you transfer your shares of Commencement Stock or Thurston Stock after their respective record dates, but prior to the Merger, you will retain the right to vote at the applicable special meeting, but the right to receive the consideration in the Merger will transfer with the shares of stock.

Q: What do I need to do now?

A: *Commencement shareholders:* After you have carefully read and considered the information contained in this document, you may vote at the Commencement Meeting by voting via the Internet, or by completing, signing, dating and mailing the Commencement proxy card in the enclosed postage-paid return envelope as soon as possible, to Commencement, so that your shares will be represented at the Commencement Meeting. As discussed above, if you do not submit your proxy card and you do not otherwise vote in person, your shares will be counted as a vote “AGAINST” Commencement Proposal 1 and Commencement Proposal 2.

The Commencement board of directors unanimously recommends that Commencement shareholders vote “FOR” the approval of the Commencement Proposals.

Thurston shareholders: After you have carefully read and considered the information contained in this document, you may vote at the Thurston Meeting by voting via the Internet, or by completing, signing, dating and mailing the Thurston proxy card in the enclosed postage-paid return envelope as soon as to Thurston, so that your shares will be represented at the Thurston Meeting. As discussed above, if you do not submit your proxy card and you do not otherwise vote in person, your shares will be counted as a vote “AGAINST” Thurston Proposal 1 and Thurston Proposal 2.

The Thurston board of directors recommends that Thurston shareholders vote “FOR” the approval of the Thurston Proposals.

Q: What happens if I don’t return my proxy card for the applicable special meeting?

A: Because approval of the Merger Agreement requires the affirmative approval of two-thirds of the outstanding shares of Thurston Stock and Commencement Stock, the failure to return your proxy card will have the same effect as a vote “AGAINST” the Merger Agreement, unless you attend your respective special meeting in person and vote “FOR” approval of the Merger Agreement. Because approval of the authority to adjourn or postpone either of the special meetings requires the affirmative approval of a majority of the outstanding shares of common stock, the failure to return your proxy card will have the same effect as a vote “AGAINST” the proposals at your respective special meeting, unless you attend the applicable special meeting in person and vote “FOR” approval of the proposals.

Q: May I vote in person?

A: Yes. Even if you have previously completed and returned your proxy card, you may vote your shares in person by attending the applicable special meeting and voting your shares in person. However, you must first revoke your proxy card in the manner described in this joint proxy statement/offering memorandum prior to the start of the applicable special meeting.

Q: May I change my vote after I have submitted my proxy card?

A: Yes, you may change your vote at any time before the start of either special meeting by submitting a new proxy card or by revoking your previously submitted proxy card.

Q: Who is soliciting my proxy?

A: *Commencement shareholders:* The board of directors of Commencement is soliciting your proxy. Directors, officers and other employees of Commencement may participate in soliciting proxies in person, by mail, telephone, facsimile or e-mail.

Thurston shareholders: The board of directors of Thurston is soliciting your proxy. Directors, officers and other employees of Thurston may participate in soliciting proxies in person, by mail, telephone, facsimile or e-mail.

Q: What will happen in the Merger?

A: In the Merger, Thurston will be merged with and into Commencement, with Commencement as the surviving entity and the separate corporate existence of Thurston shall cease. For a minimum of one (1) year after the Merger, the Olympia office of Commencement will continue to do business under the name, Thurston First Bank.

Q: What form of consideration will Thurston shareholders receive as a result of the Merger?

A: If the Merger Agreement is approved by the shareholders of Thurston and Commencement and the Merger is subsequently completed each share of Thurston common stock will be exchanged for 0.9024 shares of Commencement Stock. Fractional shares will be paid in cash.

Q: How does a Thurston shareholder exchange his, her or its Thurston Stock certificates?

A: Following the completion of the Merger, the exchange agent appointed by Commencement will send you a letter of transmittal with instructions for surrendering your Thurston Stock certificates. Once the exchange agent has received your transmittal letter and your Thurston Stock certificates, the exchange agent will send you your shares of Commencement Common Stock and cash in lieu of any fractional Commencement shares.

Q: When do you expect the Merger to be completed?

A: We expect to complete the Merger as quickly as possible once all of the conditions to the Merger are fulfilled, including obtaining the approvals of our shareholders and applicable regulatory agencies. We currently expect to complete the Merger in October, 2016.

Q: What are my options if I do not approve of the Merger or object to the Merger?

A: Thurston shareholders of record will have the right to dissent from the proposed Merger and to demand payment in cash of the “fair value” of their respective shares of Thurston Stock. If you want to exercise dissenters’ rights, you must deliver to Thurston, before the vote is taken by Thurston shareholders on the approval of the Merger Agreement, written notice of your intent to exercise your dissenters’ rights if the Merger is completed. Also, you must vote against, or abstain from voting on, the approval of the Merger Agreement and follow other procedures, both before and after the meeting, as described in *Appendix B*. Note that if you return a signed proxy card without voting instructions or with instructions to vote “FOR” the Merger Agreement, your shares will be automatically voted in favor of the Merger Agreement and you will lose all dissenters’ rights available under Washington law. For more detail, please see the section entitled “*The Merger - Dissenters’ Rights of Thurston Shareholders*” in the discussion of the Merger below, Commencement shareholders do not have the right to dissent from the Merger and demand payment in cash.

Q: What risks should I consider before I vote on the proposed Merger?

A: We encourage you to read carefully the detailed information about the Merger contained in this joint proxy statement/offering memorandum, including the section entitled “*Risk Factors*” beginning on page 22.

Q: Is completion of the Merger subject to any conditions besides shareholder approval?

A: Yes. The Merger must receive the required regulatory approvals, and there are other customary closing conditions that must be satisfied. To review the conditions of the Merger in more detail, see “*The Merger*,” below. The management of Commencement and Thurston have the right to waive one or more conditions to closing, without re-soliciting proxy authority. See “*Risk Factors*,” below.

Q: Should I send in my Thurston Stock certificates now?

A: No. Prior to the date of the Merger, Commencement’s exchange agent will send written instructions to Thurston shareholders for exchanging Thurston Stock certificates. Thurston shareholders should *not* send their Thurston Stock certificates with their proxy cards. However, you are advised to locate your Thurston Stock certificate(s) at this time because, if the Merger is approved, you will be required to surrender your Thurston Stock certificate(s) to receive the merger consideration.

Q: What if I have additional questions?

A: If you are a Commencement shareholder and have any questions about the Merger or any of the other proposals being considered and voted upon at the Commencement Meeting, or if you need additional copies of this document or the enclosed proxy card, you should contact:

Commencement Bank
1102 Commerce Street
Tacoma, Washington 98402
Attention: H.R. Russell, President and Chief Executive Officer
Telephone: (253) 284-1800

If you are a Thurston shareholder and have any questions about the Merger or any of the other proposals being considered and voted upon at the Thurston Meeting, or if you need additional copies of this document or the enclosed proxy card, you should contact:

Thurston First Bank
600 Franklin Street SE, Suite 102
Olympia, Washington 98501
Attention: James H. Haley, President and Chief Executive Officer
Telephone: (360) 528-4111

SUMMARY

*This brief summary highlights selected information from this joint proxy statement/offering memorandum and may not contain all of the information that is important to you. We have attached the Merger Agreement to this document as **Appendix A**. We urge you to read it carefully along with this document and the other documents we refer to in this document. These documents will give you a more complete description of the items for consideration at the Thurston Meeting and the Commencement Meeting. For more information about Thurston or Commencement, see “Where You Can Find More Information” on page 162. We have included page references in this summary to direct you to other places in this joint proxy statement/offering memorandum where you can find a more complete description of the topics we have summarized.*

The Companies

Commencement Bank
1102 Commerce Street
Tacoma, Washington 98402

Commencement Bank is a Washington state chartered commercial bank that was incorporated on October 27, 2006, and commenced operations on December 11, 2006. Commencement has been in continual operation in the state of Washington since such commencement of operations. Commencement reports its operations based upon a fiscal year beginning on the first day of January and ending on the last day of December.

At June 30, 2016, Commencement had total assets of approximately \$189.6 million, total net loans of approximately \$149 million, total deposits of approximately \$162.4 million, and shareholders’ equity of approximately \$23.2 million. Commencement Stock is listed for quotation on the OTC Market Group’s OTCQX marketplace (“OTCQX”) under the ticker symbol “CBWA.” Commencement is a member of the federal reserve system and the Board of Governors of the Federal Reserve System is its primary federal regulator.

Thurston First Bank
600 Franklin Street SE, Suite 102
Olympia, Washington 98501

Thurston is a Washington state chartered banking corporation. Thurston currently operates a single office located in Olympia, Washington. As of June 30, 2016, Thurston had total assets of approximately \$133.3 million, net loans of approximately \$72.9 million, total deposits of approximately \$115.6 million and shareholders’ equity of approximately \$12.8 million. Thurston Stock is not currently listed on any securities exchange or quotation system. Thurston’s primary federal regulator is the Federal Deposit Insurance Corporation.

The Merger (page 35)

The Merger Agreement is attached to this joint proxy statement/offering memorandum as **Appendix A**, which is incorporated by reference into this joint proxy statement/offering memorandum. Please read the entire Merger Agreement, as it is the legal document that governs the Merger. Pursuant to the terms and conditions set forth in the Merger Agreement, Thurston will merge with and into Commencement, with Commencement as the surviving institution. The parties expect to complete the Merger in October 2016.

Ownership of Commencement after the Merger

Pursuant to the Merger Agreement, Commencement will issue approximately 1,221,601 shares of Commencement Stock to holders of Thurston Stock in connection with the Merger. After completion of the Merger, the former Thurston shareholders will own approximately 35.5% of the common equity of Commencement Stock.

Material U.S. Federal Income Tax Consequences (page 79)

The Merger is intended to qualify as a “reorganization” within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended, which is referred to in this joint proxy statement/offering memorandum as the Code, and it is a condition to completion of the Merger that Thurston and Commencement receive an opinion to that effect. If the Merger is completed, the merger consideration that will be paid to the holders of Thurston Stock will include shares of Commencement Stock and cash for any fractional shares.

Assuming the Merger qualifies as a reorganization, subject to the limitations and more detailed discussion set forth in “*The Merger – Material Federal Income Tax Consequences*” of this joint proxy statement/offering memorandum, a Thurston shareholder that is a U.S. holder that receives Commencement Stock in exchange for its shares of Thurston Stock generally will not recognize gain or loss on such exchange, other than with respect to cash received in lieu of fractional shares of Commencement Stock.

Tax matters are complicated, and the tax consequences of the Merger to a particular Thurston shareholder will depend in part on such shareholder’s individual circumstances. Accordingly, each Thurston shareholder is urged to consult his, her or its own tax advisor for a full understanding of the tax consequences of the Merger to you, including the applicability and effect of federal, state, local and foreign income and other tax laws.

The Thurston Special Meeting (page 83)

A special meeting of shareholders of Thurston (the “Thurston Meeting”) will be held on Wednesday, October 26, 2016, at 6:00 p.m. local time at the Waterstreet Café, 610 Water Street SW, Olympia, Washington 98501. At the Thurston Meeting, Thurston shareholders will be asked to consider and vote on the following:

- to approve the principal terms of the Merger, as described in the Agreement and Plan of Reorganization, dated as of July 8, 2016, between Commencement and Thurston, pursuant to which Thurston will be merged with and into Commencement, with Commencement as the surviving entity, and the separate corporate existence of Thurston shall cease, all on and subject to the terms and conditions contained therein (Thurston Proposal 1); and
- to adjourn or postpone the Thurston Meeting to a later date or dates, if necessary, to permit further solicitation of proxies if there are not sufficient votes at the time of the Thurston Meeting to approve the Merger Agreement (Thurston Proposal 2).

Thurston Record Date set at August 15, 2016; The Affirmative Vote of Two-Thirds of the Outstanding Thurston Stock is Required to Approve the Merger Agreement (page 84)

Thurston shareholders may vote at the Thurston Meeting if they owned Thurston Stock at the close of business on the Thurston Record Date. Thurston shareholders can cast one vote for each share of

Thurston Stock you owned at that time. As of the Thurston Record Date, there were 1,353,724 shares of Thurston Stock outstanding.

Approval of the Merger Agreement requires the affirmative vote by the holders of two-thirds of the outstanding shares of Thurston Stock. Thurston shares not voted at the Thurston Meeting will have the effect of a vote “AGAINST” the Merger Agreement.

You may vote your shares of Thurston Stock by attending the Thurston Meeting and voting in person or by completing and mailing the enclosed proxy card in the enclosed postage-paid return envelope, or voting by internet as indicated in the materials included with this joint proxy statement/offering memorandum.

Revocation of Proxies

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

- submitting another valid proxy bearing a later date;
- attending the special meeting and voting your shares in person; or
- delivering prior to the special meeting a written notice of revocation to Thurston’s corporate secretary.

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

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

Thurston’s Reasons for the Merger and Recommendations of Thurston’s Board of Directors (page 37)

Based on the reasons discussed elsewhere in this joint proxy statement/offering memorandum, the board of directors of Thurston believes that the Merger is fair to Thurston shareholders and in the best interests of Thurston shareholders, and recommends that Thurston shareholders vote “FOR” the proposal to approve the Merger Agreement. For a discussion of the circumstances surrounding the Merger and the factors considered by Thurston’s board of directors in approving the Merger Agreement, see page 38.

The Commencement Special Meeting (page 87)

A special meeting of shareholders of Commencement will be held on October 26, 2016 at 2:00 p.m. local time at the Bank’s offices, 1102 Commerce Street, Tacoma, Washington 98402 (the “Commencement Meeting”), for the following purposes:

- to approve the principal terms of the Merger, as described in the Agreement and Plan of Reorganization, dated as of July 8, 2016, between Commencement and Thurston, pursuant to which Thurston will be merged with and into Commencement, with Commencement as the surviving entity, and the separate corporate existence of Thurston shall cease, all on and subject to the terms and conditions contained therein (Commencement Proposal 1); and

- to adjourn or postpone the Commencement Meeting to a later date or dates, if necessary, to permit further solicitation of proxies if there are not sufficient votes at the time of the Commencement Meeting to approve the Merger Agreement (Commencement Proposal 2).

Commencement Record Date set at August 15, 2016; The Affirmative Vote of Two-Thirds of the Outstanding Commencement Stock is Required to Approve the Merger Agreement (page 88)

Commencement shareholders may vote at the Commencement Meeting if they owned Commencement Stock at the close of business on the Commencement Record Date. Commencement shareholders can cast one vote for each share of Commencement Stock owned at that time. As of the Commencement Record Date, there were 2,223,146 shares of Commencement Stock outstanding.

Approval of the Merger Agreement requires the affirmative vote by the holders of two-thirds of the outstanding shares of Commencement Stock. Commencement shares not voted at the Commencement Meeting will have the effect of a vote “AGAINST” the Merger Agreement.

You may vote your shares of Commencement Stock by attending the Commencement Meeting and voting in person, voting via the internet, or by completing, signing, dating and mailing the enclosed proxy card, without delay, in the enclosed postage-paid envelope.

Revocation of Proxies

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

- submitting another valid proxy bearing a later date;
- attending the special meeting and voting your shares in person; or
- delivering prior to the special meeting a written notice of revocation to Commencement’s corporate secretary.

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

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

Commencement’s Reasons for the Merger and Recommendations of Commencement’s Board of Directors (page 40)

Based on the reasons discussed elsewhere in this joint proxy statement/offering memorandum, the board of directors of Commencement believes that the Merger is fair to Commencement shareholders and in the best interests of Commencement shareholders, and unanimously recommends that Commencement shareholders vote “FOR” the proposal to approve the Merger Agreement. For a discussion of the circumstances surrounding the Merger and the factors considered by Commencement’s board of directors in approving the Merger Agreement, see page 40.

Effective Time of the Merger/Closing

The Merger will become effective at the date and time specified in the certificate of merger to be issued by the Director of Financial Institutions for the State of Washington. If Thurston shareholders

approve the Merger Agreement at the Thurston Meeting, and if Commencement shareholders approve the Merger Agreement at the Commencement Meeting and if all necessary government approvals are obtained and the other conditions to the parties' obligations to effect the Merger are met or waived by the party entitled to do so, we anticipate that the Merger will be completed in October 2016.

A closing (the "Closing") shall take place immediately prior to the Effective Time at the offices of Commencement, 1102 Commerce Street, Tacoma, Washington 98402 or at such other place, at such other time, or on such other date as the parties may mutually agree upon (such date, the "Closing Date").

We cannot assure you that the necessary shareholder and governmental approvals will be obtained or that the other conditions to completion of the Merger can or will be satisfied.

Opinion of Financial Advisors (page 41)

Thurston: D. A. Davidson & Co. ("Davidson") has delivered to the Thurston board of directors an opinion, dated July 7, 2016, to the effect that, as of such date and subject to the procedures followed, assumptions made, matters considered, and qualifications and limitations on the review undertaken by Davidson as set forth in such opinion, the per share merger consideration to be received by holders of Thurston stock in the proposed Merger was fair, from a financial point of view, to the holders of Thurston stock. We have attached this opinion to this joint proxy statement/offering memorandum as *Appendix C*, and the full text of the opinion is incorporated herein by reference. You should read this opinion completely to understand the procedures followed, assumptions made, matters considered, and qualifications and limitations on the review undertaken by Davidson. The opinion was for the information of, and was directed to, the Thurston board of directors (in its capacity as such) in connection with its consideration of the financial terms of the merger. The opinion addressed only the fairness, from a financial point of view, as of the date of the opinion, of the per share merger consideration in the Merger to the holders of Thurston stock. It did not address the underlying business decision of Thurston to engage in the Merger or enter into the Merger Agreement or constitute a recommendation to the Thurston board of directors in connection with the Merger, and it does not constitute a recommendation to any holder of Thurston stock or any shareholder of any other entity as to how to vote in connection with the Merger or any other matter (including, with respect to holders of Thurston stock, what election any such shareholder should make with respect to the stock consideration or the cash consideration), nor does it constitute a recommendation regarding whether or not any such shareholder should enter into a voting, shareholders' or affiliates' agreement with respect to the Merger or exercise any dissenters' or appraisal rights that may be available to such shareholder. Thurston has agreed to pay Davidson a fee for its services in connection with the Merger, including rendering the fairness opinion, a portion of which is contingent upon completion of the Merger.

Commencement: On July 7, 2016, Performance Trust Capital Partners, LLC ("PTCP") rendered to Commencement's board its written opinion with respect to the fairness, from a financial point of view, to the holders of Commencement common stock, as of July 7, 2016, of the merger consideration pursuant to the Agreement (the "Merger Consideration"). PTCP's opinion was directed to Commencement's board and only addressed the fairness, from a financial point of view, to the holders of Commencement common stock, of the Merger Consideration and did not address any other aspect or implication of the Merger. The references to PTCP's opinion in this Proxy Statement are qualified in their entirety by reference to the full text of PTCP's written opinion, which is included as *Appendix D* to this Proxy Statement and PTCP's opinion sets forth the procedures followed, assumptions made, qualifications and limitations on the review undertaken and other matters considered by PTCP in preparing its opinion. However, neither PTCP's opinion, nor the summary of its opinion and the related analyses set forth in this Proxy Statement is intended to be, and they do not constitute, advice or a recommendation to Commencement's board or any shareholder of Commencement as to how to act or vote with respect to any matter relating to the Agreement or

otherwise. PTCP's opinion was furnished for the use and benefit of Commencement's board (in its capacity as such) in connection with its evaluation of the Merger and should not be construed as creating, and PTCP will not be deemed to have, any fiduciary duty to Commencement's board, Commencement, any security holder or creditor of Commencement or any other person, regardless of any prior or ongoing advice or relationships. See "*The Merger - Opinion of Commencement's Financial Advisor*" beginning on page 56.

Thurston Shareholders Will Receive Commencement Stock for Each Share of Thurston Stock Exchanged in the Merger (page 62)

At the effective time of the Merger, each outstanding share of Thurston Stock will, by virtue of the Merger and without any action on the part of a Thurston shareholder, be converted into the right to receive 0.9024 shares of Commencement Bank Common Stock. Cash will be paid in lieu of any fractional share interest.

Merger Consideration.

Aggregate Commencement Stock Consideration. The number of shares of Commencement Stock to be issued in the Merger shall be equal to approximately 1,221,601 shares.

Conditions to Completion of the Merger (page 69)

Completion of the Merger depends on meeting a number of conditions, including, among others, the following:

- All regulatory approvals required to consummate the Merger shall have been obtained and shall remain in full force and effect and all statutory waiting periods in respect thereof shall have expired and no such final regulatory approvals shall contain any materially burdensome conditions, restrictions or requirements which the Commencement board of directors reasonably determines in good faith would, individually or in the aggregate, impose conditions, restrictions or requirements on Commencement following completion of the Merger to such a degree and to such an extent that Commencement would not have entered into the Merger Agreement had such conditions, restrictions or requirements been known at the date hereof.
- No governmental authority of competent jurisdiction shall have enacted, issued, promulgated, enforced or entered any statute, rule, regulation, judgment, decree, injunction or other order (whether temporary, preliminary or permanent) which is in effect and prohibits consummation of the Merger.
- The Merger Agreement shall have been approved by the requisite vote of holders of Commencement Stock and Thurston Stock.

Any condition to the completion of the Merger, other than the required shareholder votes and regulatory approvals, may be waived in writing by the party to the Merger Agreement entitled to the benefit of such condition. A party to the Merger Agreement could choose to complete the Merger even though a condition has not been satisfied, as long as permitted by law. Neither Commencement nor Thurston can be certain when or if the conditions to the Merger will be satisfied or waived, or that the Merger will be completed. See "*The Merger – Conditions to Completion of the Merger*" elsewhere herein for a complete list of all conditions of the Closing applicable to either party.

Regulatory Approvals Required (page 82)

The Merger requires the approval of the Federal Reserve Bank (the “FRB”) and the Department of Financial Institutions Division of Banks for the State of Washington (the “DFI”). Commencement and Thurston expect to obtain all necessary regulatory approvals, although it cannot be certain if or when such approvals will be obtained. On or about August 1, 2016, Commencement filed applications with the FRB and DFI to obtain approval of the Merger. The Merger cannot proceed in the absence of these required regulatory approvals.

Amendments or Waiver (page 76)

Commencement and Thurston may amend the Merger Agreement and each party may waive its right to require the other party to adhere to any term or condition of the Merger Agreement. However, that after approval by Thurston’s shareholders, no amendment will be made changing the form or reducing the amount of consideration to be received by the shareholders of Thurston without the further approval of such shareholders.

Termination of the Merger Agreement (page 76)

The Merger Agreement may be terminated, and the Merger may be abandoned, at any time before the effective time of the Merger (the “Effective Time”) by mutual consent in writing of Thurston and Commencement. Among other things specified in the Merger Agreement, Thurston and Commencement can also terminate the Merger Agreement as follows:

- Provided that the terminating party is not then in material breach of any representation, warranty, covenant or agreement contained in the Merger Agreement, by Commencement or Thurston, in the event of a breach by the other party or parties of any representation, warranty, covenant or agreement contained herein, which breach (i) cannot be or has not been cured within 30 days after the giving of written notice to the breaching party or parties of such breach and (ii) would entitle the non-breaching party or parties not to consummate the Merger contemplated hereby under Section 8.2(a) or (b) or 8.3(a) or (b) of the Merger Agreement, as the case may be.
- By either party if the Closing of the Merger has not occurred on or before January 31, 2017, except to the extent that the failure of the Merger then to be consummated by such date shall be due to the failure of the party seeking to terminate to materially perform or observe the covenants and agreements of such party or parties set forth in the Merger Agreement.
- By either party, in the event the approval of any governmental authority required for consummation of the Merger and the other transactions contemplated by the Merger Agreement shall have been denied by final nonappealable action of such governmental authority or an application therefor shall have been permanently withdrawn at the request of a governmental authority, provided, however, that no party or parties shall have the right to terminate the Merger Agreement if such denial shall be due to the failure of the party or parties seeking to terminate the Merger Agreement to perform or observe the covenants of such party or parties set forth therein.
- By either party, if the approval of the shareholders of Thurston or Commencement contemplated by the Merger Agreement is not obtained by reason of the failure to obtain the required vote at the Thurston Meeting or Commencement Meeting or at any adjournments or postponements thereof; provided, however, that no party may terminate

the Merger Agreement if such party has breached in any material respect any of its obligations under the Merger Agreement, in each case in a manner that reasonably likely caused the failure to obtain the Thurston shareholder approval at the Thurston Meeting or any adjournment or postponement thereof or the Commencement shareholder approval at the Commencement Meeting or any adjournment or postponement thereof.

- By Commencement prior to the Thurston shareholder approval having been obtained, if (i) Thurston shall have materially breached the provisions of Section 7.7 of the Merger Agreement in any respect adverse to Commencement, (ii) the Thurston board of directors shall have failed to make its recommendation, withdrawn such recommendation or modified or changed such recommendation in a manner adverse in any respect to the interests of Commencement, or (iii) Thurston shall have materially breached its obligations under the Merger Agreement by failing to call, give notice of, convene and hold the Thurston Meeting.

See “*The Merger – Termination of the Merger Agreement*” elsewhere herein for a complete list of all termination rights applicable to either party.

Termination Fees (page 78)

Under certain circumstances described in the Merger Agreement, either party may demand a Three Hundred Thousand Dollars (\$300,000) termination fee in connection with the termination of the Merger Agreement. See “*The Merger – Termination Fees.*”

Break-Up Fee (page 78)

Under certain circumstances described in the Merger Agreement, Commencement may demand a Six Hundred Thousand Dollars (\$600,000) break-up fee in connection with the termination of the Merger Agreement. See “*The Merger – Break-Up Fee.*”

Some of the Directors and Officers of Thurston Have Interests in the Merger that Differ from Your Interests (page 74)

Certain executive officers and members of the board of directors of Thurston have interests in the Merger that are in addition to their interests as shareholders of Thurston. Thurston’s board of directors was aware of these interests and considered them, among other matters, in approving the Merger Agreement. In particular, Commencement agreed that it will obtain an extended reporting period (otherwise known as “tail coverage”) policy with respect to Thurston’s directors’ and officers’ liability insurance for a period of six years after the Closing date of the Merger. Moreover, as a condition to the Closing of the Merger, Commencement will enter into an employment agreement with James H. Haley, President and Chief Executive Officer of Thurston and Mr. Haley will receive a change in control payment pursuant to the terms of his Severance/Change in Control Agreement, and the Chief Financial Officer will receive a severance payment prior to the Closing. In addition, pursuant to the Merger Agreement, four (4) directors of Thurston, Stephen J. Bean, David Owens, M.D., Rob C. Rice, and Cheryl L. Duryea will become directors of Commencement upon consummation of the transaction and three (3) directors of Commencement, John C. James, Peter J. Lemcke, and James L. Walton, will resign upon consummation of the transaction, resulting in a Board of Directors of Commencement after the Merger, eleven (11) persons, seven (7) from Commencement, and four (4) from Thurston. Following the Merger, an advisory board of Commencement shall be formed consisting of those members of the Thurston board of directors as of the Effective Time that desire to serve in that capacity at the time of the Closing (the “Advisory Board”). The Advisory Board shall meet quarterly with one or more of the executive officers of Commencement. Stephen J. Bean shall

serve as Chairman of the Advisory Board. Mr. Bean shall receive a monthly fee of Two Thousand Dollars (\$2,000) for serving as Chairman of the Advisory Board.

Comparison of Rights of Shareholders of Commencement and Thurston (page 90)

Thurston is a Washington state chartered banking corporation and the rights of shareholders of Thurston are governed by Washington law and Thurston's articles of incorporation and bylaws. Commencement is also a Washington state chartered banking corporation and the rights of Commencement shareholders are governed by Washington law and Commencement's articles of incorporation and bylaws. Upon completion of the Merger, shareholders of Thurston will become shareholders of Commencement and their rights will be governed by Commencement's articles of incorporation and bylaws, in addition to Washington law. Commencement's articles of incorporation and bylaws will remain the same unless later altered, amended or repealed. Thurston's primary regulator is the FDIC. Commencement's primary federal regulator is the FRB. Following the Merger, Commencement's primary federal regulator will remain the FRB.

Dissenters' Rights in the Merger (page 82)

Under Washington law, you have the right to dissent from the Merger and receive cash equal to the fair value of your Thurston shares determined by an appraisal instead of receiving Commencement Common Stock. To exercise dissenters' rights, you must strictly follow the procedures established by Chapter 30A.49.090 of the WBCA, including the delivery to Thurston before the vote is taken by Thurston shareholders on the approval of the Merger Agreement of written notice of your intent to demand payment for your shares of Thurston Common Stock if the Merger is effected and you must vote against, or abstain from voting on, the approval of the Merger Agreement. See "*The Merger – Dissenters' Rights for Thurston Shareholders*" on page 82 and **Appendix B** to this joint proxy statement/memorandum.

If you intend to exercise dissenters' rights, you should read the statute carefully and consult with your own legal counsel. The text of the provisions of the WCBA pertaining to dissenters' rights is attached to this joint proxy statement/offering memorandum as **Appendix B**.

Selected Historical Financial Data of Commencement

Set forth below is certain financial data of Commencement as of and for the years ended December 31, 2011 through December 31, 2015 and as of and for the six (6) months ended June 30, 2016 and 2015. The unaudited results of operations for the six (6) months ended June 30, 2016 and 2015 are not necessarily indicative of the results of operations for the full year or any other interim period. Commencement's management prepared the unaudited information as of and for the six (6) months ended June 30, 2015 and 2014 on the same basis as it prepared the financial data as of and for the year ended December 31, 2015. In the opinion of Commencement's management, this unaudited information reflects all adjustments, consisting of only normal recurring adjustments, necessary for a fair presentation of this data for those dates. You should read this information in conjunction with Commencement's financial statements and related notes for the year ended December 31, 2015 and 2014 and Commencement's unaudited balance sheet as of June 30, 2016 and unaudited statements of income for the six (6) months ended June 30, 2015 and 2014, which are included in this document and from which most of this information is derived.

	At or for the six months ended		At or for the year ended				
	June 30,		December 31,				
	2016	2015	2015	2014	2013	2012	2011
	(dollars in thousands, except per share amounts)		(dollars in thousands, except per share amounts)				
Balance Sheet Data:							
Total assets	\$ 189,624	\$ 177,186	\$ 179,066	\$ 167,654	\$ 170,637	\$ 145,592	\$ 130,132
Gross loans	149,026	146,554	145,086	133,410	128,124	110,313	105,715
Allowance for loan losses	1,975	1,851	1,962	1,851	1,732	2,064	2,524
Net loans	147,051	144,703	143,124	131,559	126,392	108,249	103,191
Investment securities and non-marketable equity securities	3,199	1,701	3,387	2,929	4,622	5,657	8,131
Non-performing loans	76	-	-	422	298	3,362	5,387
Foreclosed real estate	338	459	338	642	700	3,904	-
Deposits	162,383	151,392	152,629	142,637	146,724	124,040	110,432
Other borrowed funds	3,200	3,200	3,200	3,200	3,200	2,000	2,000
Total stockholders' equity	23,208	21,948	22,539	21,521	20,554	19,132	17,468
Average assets	182,372	171,748	180,086	162,851	143,651	135,988	122,627
Average earning assets	171,741	163,280	171,259	154,227	133,655	131,163	121,653
Average stockholders' equity	22,928	21,759	22,013	21,094	19,840	17,788	17,105

Statement of Operations Data:

Interest income	\$ 3,936	\$ 3,461	\$ 7,131	\$ 6,712	\$ 6,025	\$ 5,790	\$ 5,680
Interest expense	377	373	759	754	693	975	1,094
Net interest income	3,559	3,088	6,372	5,958	5,332	4,815	4,586
Provision for loan losses	-	(121)	(121)	45	15	(800)	265
Net interest income after provision for loan losses	3,559	3,209	6,493	5,913	5,317	5,615	4,321
Noninterest income	208	269	493	415	10	170	140
Noninterest expense	2,792	2,658	5,333	5,008	4,477	4,345	3,881
Net income (loss) before income taxes	975	820	1,653	1,320	850	1,440	580
Income taxes	369	256	511	400	(602)	(170)	-
Net income (loss)	\$ 606	\$ 564	\$ 1,142	\$ 920	\$ 1,452	\$ 1,610	\$ 580

	At or for the six months ended		At or for the year ended				
	June 30,		December 31,				
	2016	2015	2015	2014	2013	2012	2011
	(dollars in thousands, except per share amounts)		(dollars in thousands, except per share amounts)				
Per Common Share:							
Basic income (loss) per share	\$ 0.27	\$ 0.25	\$ 0.51	\$ 0.41	\$ 0.65	\$ 0.73	\$ 0.26
Diluted income per share	\$ 0.27	\$ 0.25	\$ 0.51	\$ 0.41	\$ 0.65	\$ 0.73	\$ 0.26
Book value per share	\$ 10.44	\$ 9.89	\$ 10.15	\$ 9.70	\$ 9.26	\$ 8.62	\$ 7.87
Dividends paid per common share	-	0.07	0.07	-	-	-	-
Dividend payout ratio	0%	27%	14%	0%	0%	0%	0%
Basic average shares outstanding	2,220,260	2,219,500	2,219,500	2,219,500	2,219,500	2,219,500	2,219,500
Diluted average shares outstanding	2,220,260	2,219,500	2,219,500	2,219,500	2,219,500	2,219,500	2,219,500
Common shares outstanding	2,222,000	2,219,500	2,219,500	2,219,500	2,219,500	2,219,500	2,219,500

Performance Ratios:

Return on average assets	0.66%	0.66%	0.63%	0.56%	1.01%	1.18%	0.47%
Return on average stockholders' equity	5.29%	5.18%	5.19%	4.36%	7.32%	9.05%	3.39%
Net interest margin	4.14%	3.78%	3.72%	3.86%	3.99%	3.67%	3.77%
Net interest spread	3.99%	3.63%	3.57%	3.73%	3.86%	3.49%	3.49%
Efficiency ratio	74.1%	79.2%	77.7%	78.6%	83.8%	87.2%	82.1%

Selected Historical Financial Data of Thurston

Set forth below is certain financial data of Thurston as of and for the years ended December 31, 2015, 2014, 2013 and 2012 and as of and for the six (6) months ended June 30, 2016 and 2015. The unaudited results of operations for six (6) months ended June 30, 2016 and 2015 are not necessarily indicative of the results of operations for the full years or any other interim period. Thurston's management prepared the unaudited information as of and for the six (6) months ended June 30, 2016 and 2015 on the same basis as it prepared the financial data as of and for the years ended December 31, 2015 and 2014. In the opinion of Thurston's management, this unaudited information reflects all adjustments, consisting of only normal recurring adjustments, necessary for a fair presentation of this data for those dates. You should read this information in conjunction with Thurston's financial statements and related notes for the years ended December 31, 2015 and 2014 and Thurston's unaudited balance sheet as of June 30, 2016 and unaudited statements of income for the six (6) months ended June 30, 2016 and 2015, which are included in this document and from which most of this information is derived.

	At or for the six months ended		At or for the year ended				
	June 30,		December 31,				
	2016	2015	2015	2014	2013	2012	2011
	(dollars in thousands, except per share amounts)		(dollars in thousands, except per share amounts)				
Balance Sheet Data:							
Total assets	\$ 133,267	\$ 122,805	\$ 134,620	\$ 119,864	\$ 111,742	\$ 111,673	\$ 105,613
Gross loans	74,029	68,752	72,357	70,592	69,491	71,648	80,817
Allowance for loan losses	1,105	963	948	937	804	895	1,877
Net loans	72,924	67,789	71,409	69,655	68,687	70,753	78,940
Investment securities and non-marketable equity securities	6,728	15,798	16,361	15,013	16,906	13,951	14,207
Non-performing loans	626	3,034	1,879	877	924	3,799	5,673
Foreclosed real estate	-	68	-	433	1,469	1,210	1,323
Deposits	115,553	105,351	114,821	101,916	90,108	92,863	86,041
Other borrowed funds	4,709	5,394	7,273	5,901	10,891	7,818	9,042
Total stockholders' equity	12,781	11,783	12,209	11,597	10,219	10,651	10,248
Average assets	134,046	120,106	127,762	115,491	112,703	104,217	110,130
Average earning assets	128,620	114,453	122,042	109,401	105,454	98,152	104,408
Average stockholders' equity	12,566	11,979	12,103	11,529	10,914	10,449	10,316
Statement of Operations Data:							
Interest income	\$ 2,356	\$ 2,167	\$ 4,337	\$ 4,730	\$ 4,891	\$ 5,018	\$ 5,703
Interest expense	304	315	635	728	963	1,266	1,729
Net interest income	2,052	1,852	3,702	4,002	3,928	3,752	3,974
Provision for loan losses	-	5	5	130	70	500	2,017
Net interest income after provision for loan losses	2,052	1,847	3,697	3,872	3,858	3,252	1,957
Noninterest income	98	96	182	97	(34)	138	169
Noninterest expense	1,481	1,568	3,117	3,055	2,920	2,817	2,707
Net income (loss) before income taxes	669	375	762	914	904	573	(581)
Income taxes	216	116	236	289	284	172	(222)
Net income (loss)	\$ 453	\$ 259	\$ 526	\$ 625	\$ 620	\$ 401	\$ (359)

	At or for the six months ended		At or for the year ended				
	June 30,		December 31,				
	2016	2015	2015	2014	2013	2012	2011
	(dollars in thousands, except per share amounts)		(dollars in thousands, except per share amounts)				
Per Common Share:							
Basic income (loss) per share	\$ 0.33	\$ 0.19	\$ 0.39	\$ 0.46	\$ 0.46	\$ 0.30	\$ (0.27)
Diluted income per share	\$ 0.33	\$ 0.19	\$ 0.39	\$ 0.46	\$ 0.46	\$ 0.30	\$ (0.27)
Book value per share	\$ 9.44	\$ 8.70	\$ 9.02	\$ 8.58	\$ 7.55	\$ 7.87	\$ 7.73
Dividends paid per common share	-	-	-	-	-	-	-
Dividend payout ratio	0%	0%	0%	0%	0%	0%	0%
Basic average shares outstanding	1,353,724	1,352,424	1,353,116	1,352,264	1,352,264	1,352,264	1,326,639
Diluted average shares outstanding	1,353,724	1,352,424	1,353,116	1,352,264	1,352,264	1,352,264	1,326,639
Common shares outstanding	1,353,724	1,353,724	1,353,224	1,352,264	1,353,264	1,353,264	1,326,014
Performance Ratios:							
Return on average assets	0.68%	0.43%	0.41%	0.54%	0.55%	0.38%	-0.33%
Return on average stockholders' equity	7.21%	4.32%	4.35%	5.42%	5.68%	3.84%	-3.48%
Net interest margin	3.19%	3.24%	3.03%	3.66%	3.72%	3.82%	3.81%
Net interest spread	2.96%	3.03%	2.82%	3.47%	3.53%	3.56%	3.49%
Efficiency ratio	68.9%	80.5%	80.3%	74.5%	75.0%	72.4%	65.3%

UNAUDITED PRO FORMA COMBINED CONDENSED FINANCIAL INFORMATION

The following table provides unaudited pro forma combined condensed financial information about Commencement, after giving effect to the Merger. The unaudited pro forma combined condensed balance sheet as of June 30, 2016 assumes the Merger was completed on June 30, 2016 and the unaudited pro forma combined condensed statements of operations for the six-month period ended June 30, 2016 and for the year ended December 31, 2015 assume the Merger was completed on January 1, 2015. In addition, the pro forma financial information also assumes, among other things, that an aggregate of 1,221,601 shares of Commencement stock are to be issued pursuant to the Merger. The pro forma financial information further assumes that the Merger is accounted for using the purchase method of accounting, with Commencement being considered the acquirer, and reflects a current estimate of the financial information based on available financial information of Commencement and Thurston.

The pro forma financial information includes adjustments to record the assets and liabilities of Thurston at their estimated fair values and is subject to further adjustment as of the date the Merger is completed and as additional information becomes available and additional analyses are performed. The pro forma financial information is presented for illustrative purposes only and does not indicate the financial results the combined bank would have realized had the impact of possible revenue enhancements, expense efficiencies, transaction or integration related expenses and asset dispositions, among other factors, been considered. The information presented below should be read together with the historical consolidated financial statements of Thurston and Commencement. The pro forma financial information is not necessarily indicative of results that actually would have occurred had the Merger been completed on the dates indicated or that may be attained in the future.

**Unaudited Pro Forma Combined Condensed Balance Sheet
June 30, 2016**

<u>(Dollars in thousands, except per share amounts)</u>	<u>Commencement (historical)</u>	<u>Thurston (historical)</u>	<u>Pro Forma Adjustments</u>	<u>Pro Forma Combined</u>
ASSETS:				
Cash and cash equivalent	\$ 28,890	\$ 49,542	\$ (462) ¹	\$ 77,970
Investment securities	3,199	6,728	-	\$ 9,927
Net loans	147,051	72,924	125 ²	\$ 220,100
Other intangibles	-	-	-	\$ -
Goodwill	-	-	-	\$ -
Other assets	10,484	4,073	1,316 ³	\$ 15,873
Total assets	<u>\$ 189,624</u>	<u>\$ 133,267</u>	<u>\$ 979</u>	<u>\$ 323,870</u>
LIABILITIES AND SHAREHOLDER'S EQUITY:				
Noninterest deposits	34,685	36,065	-	70,750
Interest-bearing deposits	127,698	79,488	-	207,186
Total deposits	162,383	115,553	-	277,936
Borrowings	3,200	4,709	-	7,909
Other liabilities	833	224	461 ⁵	1,518
Total liabilities	166,416	120,486	461	287,363
Shareholders' equity:	23,208	12,781	518 ⁴	36,507
Total liabilities and shareholders' equity	<u>\$ 189,624</u>	<u>\$ 133,267</u>	<u>\$ 979</u>	<u>\$ 323,870</u>
Total common shares outstanding	2,222,000	1,353,724	1,221,601	3,443,601
Book value per common share	\$ 10.44	\$ 9.44		10.60
Tangible book value per common share	\$ 10.44	\$ 9.44		10.22

[1] Merger related expenses of \$462 thousand

[2] Loan valuation of \$980 thousand; Allowance for Loan Losses of \$1.105 million is not assigned to the Thurston loans because they are reflected at their estimated fair value

[3] Core Deposit Intangible, \$1.316 million (1.5% of core deposits)

[4] Excess of the fair value of assets acquired and liabilities assumed over purchase price; issuance of stock

[5] Deferred tax liability of \$461 thousand related to Core Deposit Intangible

Unaudited Pro Forma Combined Condensed Statement of Operations
For the Six-Month Period Ended June 30, 2016¹

<u>(Dollars in thousands, except per share amounts)</u>	<u>Commencement (historical)</u>	<u>Thurston (historical)</u>	<u>Pro Forma Adjustments</u>	<u>Pro Forma Combined</u>
Interest income	3,936	2,356	70 ²	6,362
Interest expense	377	304	-	681
Net interest income	3,559	2,052	70	5,681
Provision for loan losses	-	-	-	-
Net interest income after provision for loan losses	3,559	2,052	70	5,681
Noninterest income	208	98	-	306
Noninterest expense	2,792	1,481	94 ³	4,367
Income before taxes	975	669	(24)	1,620
Provision for income taxes	369	216	-	585
Net income	606	453	(24)	1,035
<u>Other Key Ratios:</u>				
Return on average assets	0.66%	0.68%		0.65%
Net interest margin	4.14%	3.19%		3.74%
Non-performing assets to total assets	0.22%	0.47%		0.32%
Allowance for loan losses to total gross loans	1.33%	1.49%		0.89%

[1] Estimated Merger related expenses of \$462 thousand are not reflected in the pro forma statement of operations

[2] Income from estimated accretion of purchase discount on loans for six-month period

[3] Amortization expense from core deposit intangible for six-month period

**Unaudited Pro Forma Combined Condensed Statement of Operations
for the Year Ended June 30, 2015¹**

<u>(Dollars in thousands, except per share amounts)</u>	<u>Commencement (historical)</u>	<u>Thurston (historical)</u>	<u>Pro Forma Adjustments</u>	<u>Pro Forma Combined</u>
Interest income	7,131	4,337	140 ²	11,608
Interest expense	759	635	-	1,394
Net interest income	6,372	3,702	140	10,214
Provision for (Reduction in allowance for) loan losses	(121)	5	-	(116)
Net interest income after provision for loan losses	6,493	3,697	140	10,330
Noninterest income	493	182	-	675
Noninterest expense	5,333	3,117	188 ³	8,638
Income before taxes	1,653	762	(48)	2,367
Provision for income taxes	511	236	-	747
Net income	1,142	526	(48)	1,620
<u>Other Key Ratios:</u>				
Return on average assets	0.63%	0.41%		0.53%
Net interest margin	3.72%	3.03%		3.43%
Non-performing assets to total assets	0.19%	1.40%		0.58%
Allowance for loan losses to total gross loans	1.35%	1.31%		0.91%

[1] Estimated Merger related expenses of \$462 thousand are not reflected in the pro forma statement of operations

[2] Income from estimated accretion of purchase discount on loans for year

[3] Amortization expense from core deposit intangible for year

RISK FACTORS

An investment in Commencement Stock in connection with the Merger involves risks. The risk factors below describe the material risks and uncertainties that Commencement believes affects the business of Commencement, the proposed Merger and Commencement Stock. You should carefully read and consider all of these risks and all other information contained in this joint proxy statement/offering memorandum in deciding whether to vote for approval of the Merger Agreement. If any of the risks described in this joint proxy statement/offering memorandum occur, Commencement's financial condition, results of operations and cash flows could be materially and adversely affected. If this were to happen, the value of Commencement Stock could decline significantly, and you could lose all or part of your investment.

Risks Related to the Merger

Commencement and Thurston may be unable to obtain the regulatory approvals required to complete the Merger or, in order to do so, Commencement may be required to comply with material restrictions or conditions.

Commencement and Thurston are seeking the approval of the FRB and the Department of Financial Institutions for the State of Washington ("DFI") to complete the Merger. Commencement made its initial filing with the FRB and the DFI on or about August 1, 2016. Commencement and Thurston cannot complete the Merger unless approved by the FRB and the DFI.

Although neither Commencement nor Thurston anticipate any regulatory impediments, the FRB and/or DFI may determine not to permit the Merger at all or may impose restrictions on the Merger that may harm the surviving bank if the Merger is completed. These conditions may include restrictions on capital, dividends, operations, or other items. Any delay in the completion of the Merger could diminish the anticipated benefits of the Merger or result in additional transaction costs, loss of revenue, or other effects associated with uncertainty about the transaction.

Commencement may also be required to agree to restrictions or conditions imposed by regulatory authorities in order to obtain regulatory approval, and these restrictions or conditions could harm the surviving bank's operations. No additional shareholder approval is expected to be required for any decision by Thurston or Commencement, after the Thurston Meeting and the Commencement Meeting, to agree to any terms or conditions necessary to resolve any regulatory objections to the Merger.

The termination fee and break-up fee contained in the Merger Agreement may discourage other companies from trying to acquire Thurston.

Each party has agreed to pay a termination fee to the other party in specified circumstances, and Thurston has agreed to pay Commencement a break-up fee in certain circumstances. These provisions could discourage other companies from trying to acquire Thurston even though those other companies might be willing to offer greater value to Thurston's shareholders than Commencement has offered in the Merger. The payment of the termination fee or break-up fee could also have a material adverse effect on Thurston or Commencement's financial condition.

Thurston's directors and executive officers may have interests in the Merger that may differ from your interests.

Some of Thurston's directors and executive officers have interests in the Merger other than their interests as Thurston shareholders. These interests are discussed more fully in the section titled "The

Merger – Interests of Directors and Officers of Thurston in the Merger,” beginning on page 74. Although it is difficult to estimate the monetary value of each of these interests, these interests may cause some of Thurston’s directors and executive officers to view the Merger proposal differently than you may view it.

Thurston will be subject to business uncertainties and contractual restrictions while the Merger is pending.

Uncertainty about the effect of the Merger on customers may have an adverse effect on Thurston and consequently on Commencement. These uncertainties could cause customers and others that deal with Thurston to seek to change existing business relationships with Thurston. If customers depart, Commencement’s business following the Merger could be harmed. In addition, the Merger Agreement restricts Thurston from making certain acquisitions and taking other specified actions until the Merger occurs without the consent of Commencement. These restrictions may prevent Thurston from pursuing attractive business opportunities that may arise prior to completion of the Merger. See the section entitled “*The Merger – Conduct of Business Pending Effective Time*” beginning on page 62 for a description of the restrictive covenants to which Thurston is subject.

Thurston faces the loss of key employees as a result of the proposed Merger.

As a result of the integration of the businesses of Thurston and Commencement following consummation of the Merger, certain positions and roles within Thurston may be changed or eliminated, including in some cases to reduce redundancies and realize cost savings as a result of the Merger. In addition, following the Merger, the business of Thurston will be integrated into Commencement, and Thurston will be a part of a larger organization. In light of these facts, certain Thurston employees may experience uncertainty about their future with Commencement following the Merger, and certain employees may determine that they would prefer to explore other opportunities, which could harm Commencement’s business following the Merger.

Combining these two companies may be more difficult, costly or time-consuming than expected.

Commencement and Thurston have operated and, until the Merger is completed, will continue to operate independently. It is possible that the integration process could result in the disruption of each bank’s ongoing business or inconsistencies in standards, controls, procedures and policies that adversely affect their ability to maintain relationships with customers and employees or to achieve the anticipated benefits of the Merger. As with any merger of banking institutions, there also may be business disruptions that cause the loss of customers or cause customers to take their deposits out of the banks. The success of Commencement following the Merger may depend in large part on the ability to integrate the two businesses, business models and cultures. If we are not able to integrate our operations successfully and timely, the expected benefits of the Merger may not be realized.

Thurston shareholders will have a reduced ownership and voting interest after the Merger and will exercise less influence over management.

Thurston shareholders currently have the right to vote in the election of the board of directors of Thurston and on other matters affecting Thurston. The Merger will transfer control of Thurston to Commencement and to the shareholders of Commencement. When the Merger occurs, each Thurston shareholder will become a shareholder of Commencement with a percentage ownership of Commencement much smaller than such shareholder’s percentage ownership of Thurston. Because of this, Thurston shareholders will have less influence on the management and policies of Commencement than they now have on the management and policies of Thurston.

Failure to complete the Merger could negatively impact the stock prices and future businesses and financial results of Commencement and Thurston.

If the Merger is not completed, the ongoing businesses of Commencement and Thurston may be adversely affected and Commencement and Thurston will be subject to several risks, including the following:

- Commencement and Thurston will be required to pay certain costs relating to the Merger, whether or not the Merger is completed, such as legal, accounting, financial advisor and printing fees;
- under the Merger Agreement, Commencement and Thurston are subject to certain restrictions on the conduct of their business prior to completing the Merger, which may adversely affect the ability to execute certain of their respective business strategies; and
- matters relating to the Merger may require substantial commitments of time and resources by Commencement and Thurston management, which could otherwise have been devoted to other opportunities that may have been beneficial to Commencement and Thurston as independent companies, as the case may be.

In addition, if the Merger is not completed, Commencement and/or Thurston may experience negative reactions from the financial markets and from their respective customers and employees. Commencement and/or Thurston also could be subject to litigation related to any failure to complete the Merger or to enforcement proceedings commenced against Commencement or Thurston to perform their respective obligations under the Merger Agreement. If the Merger is not completed, Commencement and Thurston cannot assure their shareholders that the risks described above will not materialize and will not materially affect the business, financial results and stock prices of Thurston and/or Commencement.

The unaudited condensed pro forma combined financial data included in this joint proxy statement/offering memorandum are presented for illustrative purposes only and may not be an indication of the combined bank's financial condition or results of operations following the Merger.

The unaudited condensed pro forma combined financial data contained in this joint proxy statement/offering memorandum are presented for illustrative purposes only, are based on various adjustments, assumptions and preliminary estimates and may not be an indication of the combined bank's financial condition or results of operations following the Merger for several reasons. The actual financial condition and results of operations of the combined bank following the Merger may not be consistent with, or evident from, these unaudited pro forma condensed combined financial data. In addition, the assumptions used in preparing the unaudited pro forma condensed combined financial data may not prove to be accurate, and other factors may affect the combined bank's financial condition or results of operations following the Merger. Any potential decline in the combined bank's financial condition or results of operations may cause significant variations in the stock price of the combined bank.

Risks Related to Commencement Stock

There is only a limited public market for Commencement Stock and no assurances can be given that an active trading market will exist.

Commencement Stock is currently quoted on the OTC Market Group Inc.'s OTCQX, under the symbol "CBWA," but there has historically been limited trading activity. Commencement does not anticipate that an active trading market in CBWA stock will develop as a result of the Merger, and no

assurances can be given that an active trading market will develop in the future. The lack of an active market may impair your ability to sell your shares at the time you wish to sell them or at a price that you consider reasonable. The lack of an active market may also reduce the fair market value of your shares. An inactive market may also impair CBWAs ability to raise capital by selling shares of capital stock.

Your share ownership may be diluted in the future.

Commencement's articles of incorporation currently authorize the issuance of up to 10,000,000 shares of Commencement Stock. Commencement's articles of incorporation do not provide for preemptive rights. Any authorized, but unissued shares of Commencement Stock following the Merger will be available for issuance by Commencement's board of directors. However, shareholders of Thurston receiving Commencement Stock in the Merger will not have the right to subscribe for additional Commencement Stock issued at any time in the future. As a result, if Commencement issues additional Commencement Stock in the future to raise additional capital or for other corporate purposes, you may be unable to maintain your pro rata ownership in Commencement.

Commencement Stock is subject to price volatility unrelated to its operations.

The trading volume of Commencement Stock has been and may continue to be extremely limited and sporadic. As a result of such trading activity, the quoted price for Commencement Stock on the OTCQX may not necessarily be a reliable indicator of its fair market value. Further, if Commencement ceased to be quoted, holders would find it more difficult to dispose of Commencement Stock or to obtain accurate quotations as to the market value of Commencement Stock and as a result, the market value of Commencement Stock likely would decline.

Commencement expects the market price of Commencement Stock to continue to fluctuate due to a variety of factors, including market perception of Commencement's ability to achieve its planned growth, quarterly operating results of other companies in the same industry, trading volume in Commencement Stock, changes in general conditions in the economy and the financial markets or other developments affecting Commencement's competitors or Commencement itself. In addition, the OTCQX is subject to extreme price and volume fluctuations in general. This volatility has had a significant effect on the market price of securities issued by many companies for reasons unrelated to their operating performance and could have the same effect on Commencement Stock.

An investment in Commencement Stock is not an insured deposit.

Commencement Stock is not a bank deposit and, therefore, is not insured against loss by the FDIC, any other deposit insurance fund or by any other public or private entity. Investment in Commencement Stock is inherently risky for the reasons described in this "Risk Factors" section and elsewhere herein and is subject to the same market forces that affect the value of common stock in any company. As a result, the Commencement Stock you acquire in the Merger, could lose some or all of its value.

There is no assurance Commencement will pay a dividend on Commencement Stock in the foreseeable future.

Under Washington law, cash dividends by a Washington state chartered bank may not exceed the bank's retained earnings without DFI approval. As a member of the Federal Reserve System, Commencement may not declare or pay a dividend if the dividend would exceed the bank's undivided profits as reportable on its Reports of Condition and Income, unless the bank has received the prior approval of the Federal Reserve Board and of at least two-thirds of the shareholders of each class of stock outstanding.

Commencement paid a cash dividend on Commencement Stock of \$.07 a share in 2015, after having received approval of the Federal Reserve Board and the affirmative vote of the requisite number of shareholders of Commencement. Commencement does not anticipate that it will declare and pay a cash dividend in 2016, and there can be no assurance that it will declare and pay a cash dividend in the foreseeable future.

In addition to the regulatory limitations, the declaration and payment of dividends depends upon business considerations, operating results, capital and reserve requirements, and consideration by the Commencement board of directors of other relevant factors. You should not rely on an investment in Commencement if you require dividend income from your investment in Commencement.

The return on your investment in Commencement Stock is uncertain.

Commencement cannot provide any assurance that Commencement Stock will realize a substantial return, or any return at all. Further, as a result of the uncertainty and risks associated with Commencement's operations, many of which are described in this "Risk Factors" section, it is possible that a shareholder could lose his, her or its entire investment in Commencement Stock.

Risks Associated with Commencement's Business

The impact of the changing regulatory capital requirements and new capital rules is uncertain.

The federal banking agencies issued a joint final rule, or the "Final Capital Rule," that implemented the Basel III capital standards and established the minimum capital levels required under the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"). As of January 1, 2015, Commencement became required to comply with the Final Capital Rule. The Final Capital Rule established a minimum common equity Tier I capital ratio of 6.5% of risk-weighted assets for a "well capitalized" institution and increased the minimum Tier I capital ratio for a "well capitalized" institution from 6.0% to 8.0%. Additionally, subject to a transition period, the Final Capital Rule requires an institution to maintain a 2.5% common equity Tier I capital conservation buffer over the 4.5% minimum risk-based capital requirement to avoid restrictions on the ability to pay dividends, discretionary bonuses, and engage in share repurchases. The application of the new capital requirements for Commencement could, among other things, result in lower returns on invested capital, require raising additional capital, and result in regulatory actions if Commencement is unable to comply with such requirements. The changes under the new capital requirements could also result in management modifying its business strategy, and limit Commencement's ability to make distributions, including paying dividends or repurchasing its shares. See "*Supervision and Regulation.*"

If Commencement is unable to manage its growth effectively, its operations could be negatively affected.

In order to manage its growth and maintain adequate information and reporting systems within its organization, Commencement must identify, hire and retain qualified employees, particularly in the business development and operational areas of its business. If Commencement does not manage its growth effectively, including the acquisition of Thurston, its business, financial condition, results of operations and future prospects could be negatively affected, and Commencement may not be able to continue to implement its business strategy and successfully conduct its operations.

If Commencement is unable to effectively measure and limit the credit risk associated with its loan portfolio, its business, financial condition, and profitability may be materially and adversely impacted.

The principal economic risk associated with each class of loans is the creditworthiness of the borrower, which is affected by the strength of the relevant business market segment, local market conditions, and general economic conditions. Additional factors related to the credit quality of commercial loans include the quality of the management of the business and the borrower's ability both to properly evaluate changes in the supply and demand characteristics affecting its market for products and services and to effectively respond to those changes. Additional factors related to the credit quality of commercial real estate loans include tenant vacancy rates and the quality of management of the property.

Many of Commencement's borrowers are middle-market companies that may not be as resilient as some larger companies. If Commencement is unable to effectively measure and limit the risk of default associated with its loan portfolio, Commencement's business, financial condition, and profitability may be adversely impacted.

Many of Commencement's loans are to commercial borrowers, which have a higher degree of risk than other types of loans.

At June 30, 2016, Commencement had approximately \$134 million of commercial loans (including approximately \$96 million of commercial real estate loans) representing approximately 90% of Commencement's total loan portfolio. Commercial loans, including commercial real estate loans, are often larger and involve greater risks than other types of lending. Because payments on these loans are often dependent on the successful operation or development of the property or business involved, their repayment is more sensitive than other types of loans to adverse conditions in the real estate market or the general economy. Unlike residential mortgage loans, which generally are made on the basis of the borrowers' ability to make repayment from their employment and other income and which are secured by real property whose value tends to be more easily ascertainable, commercial loans typically are made on the basis of the borrowers' ability to make repayment from the cash flow of the commercial venture. If the cash flow from business operations is reduced, the borrower's ability to repay the loan may be impaired. As a result of the larger average size of each commercial loan as compared with other loans such as residential loans, as well as the collateral, which is generally less readily marketable, losses incurred on a small number of commercial loans could have a material adverse impact on Commencement's financial condition and results of operations.

The amount of non-performing and classified assets may increase significantly, resulting in additional losses, and costs and expenses that will negatively affect Commencement's operations.

At June 30, 2016, Commencement had a total of approximately \$76 thousand of non-performing loans, or 0.04% of total assets. At June 30, 2016, Thurston had a total of approximately \$626 thousand of non-performing loans or approximately 0.47% of total assets. On a pro forma basis, following consummation of the Merger, as of June 30, 2016, Commencement would have a total of approximately \$702 thousand in non-performing loans (or approximately 0.22% of total assets).

If Commencement's allowance for loan and lease losses ("ALLL") is not sufficient to cover actual credit losses, its earnings could decrease.

Commencement's clients may not repay their loans according to the terms of those loans, and the collateral securing the payment of those loans may be insufficient to assure repayment. Commencement may experience significant losses that could have a material adverse effect on its operating results. Commencement's management makes various assumptions and judgments about the collectability of the

loan portfolios, including the creditworthiness of Commencement's borrowers and the value of the assets serving as collateral for the repayment of many of Commencement's loans. Commencement maintains its ALLL in an attempt to cover probable credit losses in its loan portfolio that have been incurred as of the balance sheet date. In determining the size of the ALLL, management relies, among other things, on experience and evaluation of economic conditions. The current ALLL may not be sufficient to cover credit losses and adjustments may be necessary to allow for different economic conditions or adverse developments in its credit portfolios. Further, as exposure occurs in future periods, Commencement will make credit loss provisions in those periods which will reduce their earnings accordingly. Material additions to the ALLL would materially decrease Commencement's net income.

While Commencement management believes that Commencement has sufficient reserves in its ALLL, factors such as a downturn in current economic conditions could result in increased charge-offs and require additional charges to earnings to bolster the reserve. In addition, federal regulators periodically review Commencement's ALLL and may require an increase in the provision for possible loan losses or further loan charge-offs, based on judgments different than those of management. Any increase in the ALLL or loan charge-offs as required by the regulators could have a negative effect on Commencement's operating results.

Nonperforming assets take significant time and resources to resolve and may adversely affect Commencement's results of operations and financial condition.

Nonperforming assets may adversely affect Commencement's net income in various ways. Commencement generally does not record interest income on nonperforming loans or other real estate owned ("OREO"), thereby adversely affecting Commencement's income and increasing loan administration costs. When Commencement takes collateral in foreclosures and similar proceedings, Commencement is required to mark the related asset to the then fair market value of the collateral, which may ultimately result in a loss. An increase in the level of nonperforming assets increases Commencement's risk profile and may impact the capital levels regulators believe are appropriate in light of the ensuing risk profile. While Commencement reduces problem assets through loan workouts, restructurings, and otherwise, decreases in the value of the underlying collateral, or in these borrowers' performance or financial condition, whether or not due to economic and market conditions beyond Commencement's control, could adversely affect Commencement's business, results of operations, and financial condition. In addition, the resolution of nonperforming assets requires significant commitments of time from management, which may materially and adversely impact their ability to perform their other responsibilities. There can be no assurance that Commencement will not experience future increases in nonperforming assets.

Liquidity risk could impair Commencement's ability to fund operations and meet Commencement's obligations as they become due and could jeopardize Commencement's financial condition.

Like Thurston, liquidity is essential to the business of Commencement. Liquidity risk is the potential that Commencement will be unable to meet its obligations as they come due because of an inability to liquidate assets or obtain adequate funding. An inability to raise funds through deposits, borrowings, the sale of loans, and other sources could have a substantial negative effect on liquidity. Commencement's access to funding sources in amounts adequate to finance its activities or on acceptable terms could be impaired by factors that affect Commencement's organization specifically or the financial services industry or economy in general. Factors that could detrimentally impact access to liquidity sources include a decrease in the level of Commencement's business activity as a result of a downturn in the markets in which Commencement's loans are concentrated or adverse regulatory actions against Commencement. Market conditions or other events could also negatively affect the level or cost of funding, affecting Commencement's ongoing ability to accommodate liability maturities and deposit withdrawals, meet

contractual obligations, and fund asset growth and new business transactions at a reasonable cost, in a timely manner, and without adverse consequences. Any substantial, unexpected, and/or prolonged change in the level or cost of liquidity could have a material adverse effect on Commencement's financial condition and results of operations, and could impair Commencement's ability to fund operations and meet Commencement's obligations as they become due and could jeopardize Commencement's financial condition.

Commencement relies on short-term funding, which can be adversely affected by local and general economic conditions.

As of June 30, 2016, approximately \$103 million, or 63.6%, of Commencement's deposits, consisted of demand, savings, money market, and NOW accounts. The approximate \$59 million remaining balance of deposits consists of certificates of deposit, approximately \$43 million of which, or 26.5% of Commencement's total deposits, are due to mature within one year. Based on past experience, Commencement believes that its savings, money market deposit accounts, NOW accounts, and commercial demand accounts are relatively stable sources of funds. Commencement's ability to attract and maintain deposits, as well as their cost of funds, has been, and will continue to be significantly affected by financial market and general economic conditions. If Commencement increases interest rates paid to retain deposits, Commencement's earnings may be adversely affected.

Commencement's profitability is vulnerable to interest rate fluctuations.

Like Thurston, Commencement's profitability is dependent to a large extent on net interest income, which is the difference between interest income on interest-earning assets, such as loans and investment securities, and interest expense on interest-bearing liabilities, such as deposits and borrowings. When interest-bearing liabilities mature or reprice more quickly than interest-earning assets in a given period, a significant increase in market rates of interest could adversely affect net interest income. Conversely, when interest-earning assets mature or reprice more quickly than interest-bearing liabilities, falling interest rates could result in a decrease in net interest income.

In periods of increasing interest rates, loan originations may decline, depending on the performance of the overall economy, which may adversely affect income from these lending activities. Also, increases in interest rates could adversely affect the market value of fixed income assets.

Commencement cannot predict fluctuations of market interest rates, which are affected by, among other factors, changes in inflation rates, levels of business activity, unemployment levels, monetary and fiscal policies of the United States and its agencies, particularly the Federal Reserve, money supply, and domestic and foreign financial markets.

Future increases in interest rates on deposits could compress Commencement's net interest margin.

Interest rates on both deposits and loan products are currently near historical lows. Low interest rates could stimulate new demand for loans and business activity in general. However, low rates could also compress Commencement's net interest margin, which would negatively affect Commencement's financial results. Further, future increases in interest rates could also cause compression in Commencement's net interest margin because interest rates on deposits generally tend to increase at a faster pace than interest rates on loan products. The difference between interest that Commencement pays on deposits and interest that Commencement receives in loan payments, expressed as a percentage of average interest earning assets, is Commencement's net interest margin. Increases in the interest rates paid on deposits without corresponding increases on interest rates received on loans could cause reductions in Commencement's net interest margin in the future.

An economic downturn, especially one affecting Commencement's primary service areas, may have an adverse effect on Commencement's financial performance.

Commencement's success depends on the general economic condition of the region in which it operates, which it cannot forecast with certainty. Unlike many larger competitors, the majority of Commencement's borrowers and depositors (like Thurston's) are individuals and businesses located or doing business in its local banking markets. As a result, Commencement's operations and profitability are more adversely affected by a local economic downturn than those of larger, more geographically diverse competitors. Factors that adversely affect the economy in Commencement's local banking markets could reduce Commencement's deposit base and the demand for its products and services, which may decrease Commencement's earnings. For example, an adverse change in the local economy could make it more difficult for borrowers to repay their loans, which could lead Commencement to incur loan losses.

The middle-market businesses that Commencement lends to may have fewer resources to weather a downturn in the economy, which may impair a borrower's ability to repay a loan to Commencement that could materially harm Commencement's operating results.

Commencement targets its business development and marketing strategy primarily to serve the banking and financial services needs of middle-market businesses. These medium-sized businesses frequently have smaller market share than their competition, may be more vulnerable to economic downturns, often need substantial additional capital to expand or compete and may experience significant volatility in operating results. Any one or more of these factors may impair the borrower's ability to repay a loan. In addition, the success of a small to medium-sized business often depends on the management talents and efforts of one or two persons or a small group of persons, and the death, disability or resignation of one or more of these persons could have a material adverse impact on the business and its ability to repay a loan. Economic downturns and other events that negatively impact Commencement's market areas could cause Commencement to incur substantial credit losses that could negatively affect Commencement's results of operations and financial condition.

Competition may adversely affect Commencement's profitability.

Commencement faces substantial competition in originating loans and in attracting deposits. The competition in originating loans comes principally from other U.S. banks, insurance companies, and other commercial and institutional lenders and purchasers of loans. Commencement will encounter greater competition as it expands its operations. A number of institutions with which Commencement competes have significantly greater assets, capital, and other resources. Increased competition could require Commencement to increase the rates it pays on deposits or lower the rates it offers on loans, which could adversely affect its profitability. This competition may also limit Commencement's future growth and earnings prospects.

Commencement's business, financial condition, results of operations and future prospects could be adversely affected by the highly regulated environment in which it operates.

Commencement, as a regulated Washington state chartered bank, is subject to federal supervision and regulation. Federal regulation of the banking industry, including, but not limited to, the Dodd-Frank Act, along with tax and accounting laws, regulations, rules, and standards, may limit its operations significantly and control the methods by which Commencement conducts business, as they limit those of other banking organizations. Many of these regulations are intended to protect depositors, the public, or the FDIC insurance funds, not shareholders. Regulatory requirements affect Commencement's lending practices, capital structure, investment practices, dividend policy, and many other aspects of Commencement's business. These requirements may constrain Commencement's operations, and the

adoption of new laws and changes to or repeal of existing laws may have a further impact on Commencement's business, financial condition, results of operations, and future prospects. Also, the burden imposed by those federal and state regulations may place banks in general, and Commencement in particular, at a competitive disadvantage compared to less regulated competitors.

Commencement is also subject to requirements with respect to the confidentiality of information obtained from clients concerning their identity, business, and personal financial information, employment, and other matters. Commencement requires its personnel to agree to keep all such information confidential and Commencement monitors compliance. Failure to comply with confidentiality requirements could result in material liability and adversely affect Commencement's business, financial condition, results of operations, and future prospects.

Commencement currently meets all applicable minimum regulatory capital requirements. While it is expected that Commencement will continue to meet all regulatory capital requirements in the future, we cannot assure you in this regard, and any failure to meet any of these requirements could have a material adverse effect on its shareholders. Financial institutions are extensively regulated and currently face an uncertain regulatory environment. Applicable laws, regulations, interpretations, enforcement policies, and accounting principles have been subject to significant changes in recent years, and may be subject to significant future changes. Commencement cannot assure its shareholders that such future changes will not adversely affect its business, financial condition, results of operations, and future prospects.

Further, federal and state regulatory agencies may adopt changes to their regulations or change the manner in which existing regulations are applied. Commencement cannot predict the substance or effect of pending or future legislation or regulation or the application of laws and regulations to it. Compliance with current and potential regulation and scrutiny may significantly increase Commencement's costs, impede the efficiency of its internal business processes, require Commencement to increase its regulatory capital, and limit its ability to pursue business opportunities in an efficient manner by requiring it to expend significant time, effort, and resources to ensure compliance. Additionally, evolving regulations and guidance concerning executive compensation may impose limitations on Commencement that affect its ability to compete successfully for executive and management talent.

In addition, given the current economic and financial environment, regulators may elect to alter standards or the interpretation of the standards used to measure regulatory compliance or to determine the adequacy of liquidity, certain risk management, or other operational practices for financial services companies in a manner that impacts Commencement's ability to implement its strategy and could affect Commencement in substantial and unpredictable ways and could have an adverse effect on Commencement's business, financial condition, and results of operations. Furthermore, the regulatory agencies have extremely broad discretion in their interpretation of the regulations and laws and their interpretation of the quality of Commencement's loan portfolio, securities portfolio, and other assets. If any regulatory agency's assessment of the quality of Commencement's assets differs from Commencement's assessment, Commencement may be required to take additional charges that would have the effect of materially reducing its earnings, capital ratios and share price.

Commencement's accounting policies and methods are fundamental to how it reports its financial condition and results of operations and it uses estimates in determining the fair value of certain assets, which estimates may prove to be imprecise and result in significant changes in valuation, which could affect its shareholders' equity.

A portion of Commencement's assets are carried on the balance sheet at fair value, including available for sale investment securities. Generally, for assets that are reported at fair value, Commencement uses quoted market prices or has third parties analyze its holdings and assign a market value.

Commencement relies on the analysis provided by its service providers. However, different valuations could be derived if its service providers used different financial models or assumptions.

As it relates to the investment securities portfolio, declines in the fair value of individual available-for-sale securities below their cost that are other-than-temporary would be included in earnings as realized losses. In estimating other-than-temporary impairment losses, management of Commencement considers (i) the length of time and the extent to which the fair value has been less than cost; (ii) the financial condition and near-term prospects of the issuer, including any specific events that may influence the operations of the issuer; and (iii) Commencement's intent and ability to retain its investment in a security for a period of time sufficient to allow for any anticipated recovery in fair value. Any economic downturn could result in losses, as determined under Commencement's accounting methodologies that may materially and adversely affect its business, financial condition, results of operations, and future prospects.

Commencement relies heavily on its management team, and the unexpected loss of key officers may adversely affect its operations.

Commencement's success has been and will continue to be greatly influenced by its ability to retain the services of existing senior management and to attract and retain qualified additional senior and middle management. Commencement's senior executive officers have had, and will continue to have, a significant role in the development and management of its business. The loss of services of any of Commencement's executive officers could have an adverse effect on its business, culture, and financial results.

Monetary policy and other economic factors could affect Commencement's profitability adversely.

The following factors will affect the demand for loans and Commencement's ability to attract deposits:

- changes in governmental economic and monetary policies;
- the Internal Revenue Code and banking and credit regulations;
- national, state, and local economic growth rates;
- employment rates; and
- population trends.

Commencement's success will depend in significant part upon its ability to maintain a sufficiently large interest margin between the rates of interest it receives on loans and other investments and the rates it pays out on deposits and other liabilities. The monetary and economic factors listed above, and the need to pay rates sufficient to attract deposits, may adversely affect Commencement's ability to maintain an interest margin sufficient to result in operating profits.

Commencement may be unable to raise additional capital to implement its strategic plan.

In the future, should Commencement need additional capital to implement its strategic plan, support its business, expand its operations, or maintain its minimum capital requirements, it may not be able to raise additional funds through the issuance of additional equity or debt. Even if Commencement is able to obtain capital through the issuance of additional securities, the sale of these additional securities may be made on terms more favorable than the Commencement Stock received by Thurston shareholders as a result of the Merger, and the sale of additional equity could significantly dilute your ownership interest.

Commencement may, in the future, be subject to litigation, which could result in substantial judgment or settlement costs.

Commencement is not currently involved in any litigation. However, it is periodically involved in litigation, and Commencement cannot assure you that it will be able to successfully defend or resolve any future litigation matters, in which case those litigation matters could have a material and adverse effect on Commencement's business, financial condition, results of operations, and future prospects.

Past performance of Commencement is not a meaningful financial indicator upon which to base an estimate of Commencement's future financial performance.

Although Commencement has been in operation since 2006, Commencement is expanding the size and scope of Commencement as a result of the Merger, which will result in increased overhead in current periods with the expectation of increased revenues in future periods. Accordingly, Commencement does not believe that the past financial performance of Commencement is a complete indicator of the future financial performance of Commencement.

A WARNING ABOUT FORWARD-LOOKING STATEMENTS

Certain statements contained in this joint proxy statement/offering memorandum, including statements included or incorporated by reference in this joint proxy statement/offering memorandum, that are not statements of historical fact constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended, and are intended to be covered by the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements include information about possible or assumed future results of operations of Commencement after the Merger is completed as well as information about the Merger. Words such as "believes," "expects," "anticipates," "estimates," "intends," "projects," "should," "may," or "possible," "potential," or similar expressions, or the negatives thereof, are intended to identify forward-looking statements, but are not the exclusive means of identifying such statements. Many possible events or factors could affect the future financial results and performance of each of our companies before the Merger or Commencement after the Merger, and could cause those results or performance to differ materially from those expressed in the forward-looking statements. These possible events or factors include, but are not limited to:

- Commencement's actual cost savings resulting from the Merger are less than expected, Commencement is unable to realize those cost savings as soon as expected or Commencement incurs additional or unexpected costs;
- Commencement's revenues after the Merger are less than expected;
- deposit attrition, operating costs, customer loss and business disruption before and after the Merger, including, without limitation, difficulties in maintaining relationships with employees, may be greater than Commencement expected;
- competition among financial services companies may increase;
- the risk that the businesses of Commencement and Thurston will not be integrated successfully, or such integration may be more difficult, time-consuming or costly than expected;

- the failure of Thurston or Commencement’s shareholders to approve the Merger Agreement;
- the ability to obtain the governmental approvals of the Merger on the proposed terms and schedule;
- changes in the level of nonperforming assets and charge-offs;
- changes in the interest rate environment reduce Commencement’s or Thurston’s interest margins;
- general business and economic conditions in the markets Commencement or Thurston serve change or are less favorable than expected;
- there may be environmental risks and liability under U.S. federal and state environmental laws and regulation;
- increases in premiums for deposit insurance;
- the use of estimates in determining fair value of certain assets, which estimates may prove to be incorrect and result in significant declines in valuation;
- failure or security breach of computer systems on which we depend;
- impacts of the new capital and liquidity requirements of the Basel III standards and other regulatory pronouncements, regulations, and rules adversely affecting Commencement’s or Thurston’s businesses;
- changes occur in business conditions and inflation;
- personal or commercial customers’ bankruptcies increase;
- changes occur in the securities markets; and
- technology-related changes are harder to make or more expensive than expected.

For other factors, risks and uncertainties that could cause actual results to differ materially from estimates contained in forward-looking statements, please read the “*Risk Factors*” section of this joint proxy statement/offering memorandum.

A forward-looking statement may include a statement of the assumptions or bases underlying the forward-looking statement. We believe we have chosen these assumptions or bases in good faith and that they are reasonable. However, we caution you that assumptions or bases almost always vary from actual results, and the differences between assumptions or bases and actual results can be material. Therefore, we caution you not to place undue reliance on forward-looking statements. The forward-looking statements are made as of the date of this joint proxy statement/offering memorandum. We undertake no obligation to publicly update or otherwise revise any forward-looking statements, whether as a result of new information, future events or otherwise except as required by law.

GENERAL INFORMATION

This document constitutes a joint proxy statement/offering memorandum of Thurston and Commencement and (i) is being furnished to all record holders of Thurston Stock in connection with the solicitation of proxies by the board of directors of Thurston to be used at a Thurston Meeting and (ii) is being furnished to all record holders of Commencement Stock in connection with the solicitation of proxies by the board of directors of Commencement to be used at a Commencement Meeting. One of the purposes of the special meetings for shareholders of Thurston and shareholders of Commencement to consider and vote to approve the Merger, as described in the Merger Agreement, which provides, among other things, for Thurston to be merged with and into Commencement, with Commencement as the surviving entity and the separate corporate existence of Thurston shall cease, all on and subject to the terms and conditions contained in the Merger Agreement. Commencement will survive the Merger and will continue commercial banking operations under its Washington state charter, headquartered in Tacoma, Washington. The Thurston First Bank office in Olympia, Washington will become a branch of Commencement following the Merger, but will continue to operate under the name Thurston First Bank for a minimum of twelve (12) months following the Merger.

This document also constitutes an offering memorandum relating to the Commencement Stock to be issued to holders of Thurston Stock who will receive Commencement Common Stock upon completion of the Merger.

THE MERGER

The following information describes material aspects of the Merger. It is not intended to be a complete description of all information relating to the Merger and is qualified in its entirety by reference to more detailed information contained in the Appendices to this document, including the Merger Agreement. A copy of the Merger Agreement is included as *Appendix A*. The Merger Agreement is incorporated herein by reference. You are urged to read the Appendices to this joint proxy statement/offering memorandum in their entirety.

Terms of the Merger

The Merger Agreement provides, among other things, that Thurston shall be merged with and into Commencement, with Commencement as the surviving entity, and the separate corporate existence of Thurston shall cease (“Merger”).

To consummate the transaction, the shareholders of Commencement and the shareholders of Thurston must approve the Merger. Approval of the Merger, or the principal terms of the Merger Agreement, by Thurston shall mean approval of the Merger by the shareholders of Thurston. Approval of the Merger, or the principal terms of the Merger Agreement, by Commencement shall mean approval of the Merger by the shareholders of Commencement.

If the shareholders of both Commencement and Thurston approve the Merger at their respective shareholder meetings, and if the required regulatory approvals are obtained and the other conditions to the parties’ obligations to effect the Merger are met or waived by the party entitled to do so, we anticipate that the Merger will be completed in October, 2016, although delays could occur.

As a result of the Merger, each share of Thurston Stock will be converted into the right to receive 0.9024 shares of Commencement Common Stock, and cash in lieu of fractional shares, without interest. In connection with the Merger, all the outstanding shares of Thurston Stock will be converted to approximately

1,221,601 shares of Commencement Common Stock, reduced by any Thurston Stock for which Thurston shareholders perfect their dissenter's rights.

Commencement will not issue any certificates for fractional shares of Commencement Stock in connection with the Merger but will instead pay each holder of Thurston Stock who is otherwise entitled to receive a fractional share of Commencement Stock in lieu thereof an amount of cash, without interest. The value of a fractional share shall be determined by multiplying (i) the Book Value of a share of Commencement Common Stock on the last day of the month preceding the Closing by (ii) the fraction of a share (after taking into account all shares of Thurston Common Stock held by such holder at the Effective Time and rounded to the nearest thousandth when expressed in decimal form) of Commencement Common Stock. For the purposes of this calculation, the Book Value of Commencement Common Stock shall be determined by dividing the Commencement stockholders' equity minus any intangible assets, in each case calculated in accordance with GAAP, and excluding in such determination any accumulated other comprehensive income (loss) of Commencement (unrealized gain or loss in the Commencement investment portfolio) on the last day of the month preceding the Closing by the total number of shares of Commencement Common Stock outstanding at the date of determination of the Book Value of Commencement Common Stock, without adjustment. No holder of Thurston Stock shall be entitled to dividends, voting rights or any other rights in respect of any fractional share.

The Merger will become effective at the date and time specified in the certificate of merger to be issued by the Department of Financial Institutions for the State of Washington (the "Effective Time"). The date of such filings or such later effective date is herein called the "Effective Date."

Background of the Merger

In its efforts to enhance shareholder value, the Thurston board of directors holds strategic planning sessions in April of each year. At its 2013 session, the board invited Tom Hayes from D.A. Davidson & Co. ("Davidson") to make a presentation about bank stock valuations and how they relate to the performances of community banks throughout the country. The presentation made clear that in order to maximize shareholder value in the modern banking environment an affiliation to create a larger community bank was a superior path than remaining small or selling to a larger bank.

At the 2014 annual strategic planning session, April 25-26, the Thurston board of directors discussed a cohesive strategy to enhance shareholder value by affiliating with one or more community banks throughout the region. The Thurston board of directors authorized engaging a consultant to run an analysis of one or more of those community banks with whom Thurston First could affiliate. The consultant reported back on May 13, 2014, with an analysis of potential banks with whom a partnership might enhance growth and profitability. Several meetings were held over the summer with the consultant and the list was distilled. In September, 2014, Mr. Bean reported to the Thurston board of directors on the progress of possible affiliations with one or more community banks.

During the six months, certain members of the Thurston board of directors talked with several banks about possibly affiliating with Thurston. The Thurston board of directors met in February, 2015, and learned from Mr. Bean that a possible transaction with a bank they had been in discussions with had ended as the other bank desired to pursue an alternative strategy. The Thurston board of directors tabled further discussions on possible strategic alliances at that time.

In June, 2015, the Thurston board of directors established a Mergers & Acquisitions Committee that consisted of directors Mr. Bean, Mr. Owens, Mr. Anderson and Mr. Rice. The Mergers & Acquisitions Committee met with and retained an experienced Mergers & Acquisitions banker to advise the Mergers & Acquisitions Committee on enhancing shareholder value by an affiliation with other another institution.

In the fall of 2015, the Thurston board of directors authorized Mergers & Acquisitions Committee to engage Davidson, Thurston's long-time investment banking advisor, to assist in locating an institution that would make a good fit for Thurston to enter into a transaction. In the fall of 2015, the Mergers & Acquisitions Committee met several times to discuss options and included its advisor, D.A. Davidson & Co., in several of these discussions.

In March, 2016, the Mergers & Acquisitions Committee had narrowed the list to five banks with Commencement Bank being at the top of the list. The Mergers & Acquisitions Committee Chairman, Mr. Owens, and Thurston Chairman, Mr. Bean, reported on their meeting with Commencement Bank's President and CEO, H. R. Russell and Chairman Tom Valentine. After hearing from the members of the Mergers & Acquisitions Committee and Thurston President James H. Haley, the Thurston board of directors unanimously instructed the Mergers & Acquisitions Committee to continue the dialogue with Commencement Bank.

On May 16, 2016, the Thurston board of directors revisited the Commencement merger and held a Special Board Meeting on May 31, 2016. At this meeting, Mr. Bean addressed the Thurston board of directors and provided an update on the Mergers & Acquisitions Committee's progress over the past year in finding a possible merger candidate. The prospect of merging with Commencement bank had developed over the prior three to four months, and now the Thurston board of directors was requested to review a Letter of Intent and ask questions of the Mergers & Acquisitions Committee. After holding a lengthy discussion and having an opportunity to ask questions of the Mergers & Acquisitions Committee and Ernie Panasci, Attorney with Stinson Leonard Street LLP, the Thurston board of directors decided the merger with Commencement was in the best interests of the shareholders and voted unanimously to move forward with the merger.

On June 3, 2016, the Thurston board of directors authorized the execution of a Letter of Intent between Thurston and Commencement. The Thurston board of directors reviewed and analyzed the terms of the Letter of Intent. The advisors to Thurston and Commencement started the draft of a definitive agreement to reflect the terms of the proposed merger. On July 7, 2016, the Thurston board of directors discussed the Commencement merger, the terms of the definitive agreement and the Thurston board of directors approved the definitive agreement and authorized the appropriate officers of Thurston to execute the definitive agreement. On July 8, 2016, the definitive agreement was fully executed by the parties thereto.

Thurston's Reasons for the Merger

The Thurston board of directors believes the proposed Merger with Commencement is fair and in the best interests of the shareholders of Thurston. In reaching this conclusion, the Thurston board of directors discussed the proposed Merger with its senior management and with its financial and legal advisors and considered the relative advantages and disadvantages of remaining independent rather than entering into the Merger. The Thurston board of directors recommend that Thurston shareholders vote in favor of the Merger agreement and consummation of the Merger and the other transactions contemplated by the Merger Agreement.

In approving the Merger with Commencement, the Thurston board of directors discussed and considered a variety of factors, both positive and negative. The primary factors that favor the Merger include, but are not limited to, the following:

- the belief that the combination with Commencement would enable Thurston shareholders to participate in a combined company that would have enhanced future prospects as compared to those that Thurston is likely to achieve on a stand-alone basis;

- the potential of combining with a larger company that will provide additional products and services to better grow and retain Thurston's customers, that the combined, more diversified, customer base will improve and diversify future revenue sources, and that future earnings prospects will be stronger on a combined basis;
- the current and prospective economic and competitive environment facing the financial services industry generally, including the continued consolidation in the industry and the increased importance of operational scale and financial resources in maintaining efficiency and remaining competitive over the long term;
- the complementary nature of the respective markets, customers and asset/liability mix of Thurston and Commencement;
- the form of consideration being approximately 0.9024 of Commencement common stock in exchange for each share of Thurston (except for fractional shares), Thurston shareholders becoming Commencement shareholders which allows such shareholders to continue to participate in the future success of the combined company, and the fixed shares component such that, if the per share price of Commencement Stock rises prior to the Merger, Thurston shareholders will benefit from that increase;
- the greater market capitalization and trading liquidity of Commencement Stock, albeit limited;
- the Thurston board of directors ability, under certain circumstances, to withdraw its recommendation to Thurston shareholders or terminate the Merger Agreement and to consider an acquisition proposal superior to the terms of the Merger Agreement in certain circumstances, subject to the potential payment by Thurston of a break-up fee of Six Hundred Thousand Dollars (\$600,000.00) to Commencement, which the Thurston board of directors concluded was reasonable in the context of termination fees in comparable transactions and in light of the overall terms of the Merger Agreement;
- the review by the Thurston board of directors with its legal and financial advisors of the structure of the Merger and the financial and other terms of the Merger Agreement;
- the opinion, dated July 7, 2016, delivered to the Thurston board of directors by D.A. Davidson & Co. to the effect that, as of such date and subject to the procedures followed, assumptions made, matters considered, and qualifications and limitations on the review undertaken by D.A. Davidson & Co. as set forth in such opinion, the per share merger consideration to be received by the holders of Thurston Stock in the proposed Merger was fair, from a financial point of view, to the holders of Thurston stock;
- the likelihood of receiving regulatory approvals in a timely fashion without unacceptable conditions and the likelihood that the Merger would be completed;
- the agreement of Commencement to provide indemnification for Thurston board of directors and executive officers and to honor certain existing employee benefits; and
- the expectation that the Merger will constitute a tax-free "reorganization" under Section 368(a) of the Internal Revenue Code to Thurston shareholders with respect to the Commencement Stock received by them.

In the course of its deliberations regarding the Merger, the Thurston board of directors also considered the following factors and risks, which the Thurston board of directors determined did not outweigh the expected benefits to Thurston and its shareholders:

- the challenges of combining the businesses, assets and employees of Thurston and Commencement which could affect the post-merger success and the ability to achieve anticipated cost savings and other potential synergies;
- the interests of Thurston executive officers and directors with respect to the Merger apart from their interests as holders of Thurston Stock, and the risk that these interests might influence their decision with respect to the Merger, as described below in “*The Merger—Interests of Thurston Directors and Executive Officers in the Merger*” beginning on page 74;
- the risk that the terms of the Merger Agreement, including provisions relating to the payment of a break-up fee under specified circumstances, although required by Commencement as a condition to its willingness to enter into the Merger Agreement, could have the effect of discouraging other parties that might be interested in a transaction with Thurston from proposing such a transaction;
- the restrictions contained in the Merger Agreement on the operation of Thurston’s business during the period between the signing of the Merger Agreement and completion of the Merger which may delay or prevent Thurston from pursuing business opportunities that could arise before completion of the Merger;
- the possibility that the Merger might not be completed and the impact of a public announcement of the termination of the Merger Agreement on, among other things, the market price of Thurston Stock and Thurston operating results, particularly in light of the costs incurred in connection with the transaction; and
- the Thurston board of directors also considered other factors described under the section of this joint proxy statement/offering memorandum entitled “Risk Factors.”

The foregoing discussion of the information and factors considered by the Thurston board of directors is not intended to be exhaustive, but includes the material factors, both positive and negative, considered by the Thurston board of directors. In reaching its decision to approve the Merger Agreement, the Thurston board of directors did not quantify or assign any relative weights to the factors considered, and individual directors may have given different weights to different factors. The Thurston board of directors considered all these factors as a whole, including discussions with, and questioning of, Thurston’s management team, its legal counsel and financial advisor. The Thurston board of directors determined that overall, the totality of information and factors (positive and negative) considered by the Thurston board of directors, was favorable to, and supported, its determination.

This explanation of Thurston’s reasons for the Merger and other information presented in this section is forward-looking in nature and should be read in light of the section entitled “*A Warning About Forward-Looking Statements*” beginning on page 33 of this joint proxy statement/offering memorandum.

Recommendation of Thurston’s Board of Directors

Thurston’s board of directors has approved the Merger Agreement and recommends that the Thurston shareholders vote “FOR” approval of the Merger Agreement.

Thurston's board of directors has determined that the Merger is fair to, and in the best interests of, Thurston's shareholders. In arriving at its determination, Thurston's board of directors considered a number of factors, including those described above under "*Reasons for the Merger.*"

Based on the reasons stated, the Thurston board of directors believed that the Merger was in the best interest of Thurston's shareholders, and therefore the Thurston board of directors approved the Merger Agreement. In addition, members of Thurston's board of directors and certain executive officers have agreed to vote the shares of Thurston Stock over which they have voting authority in favor of the Merger Agreement.

THURSTON'S BOARD OF DIRECTORS RECOMMENDS THAT THURSTON SHAREHOLDERS VOTE "FOR" APPROVAL OF THE MERGER AGREEMENT.

Commencement's Reasons for the Merger and Recommendation of Commencement's Board of Directors

As part of Commencement's business strategy, it evaluates opportunities to acquire banks and other financial institutions. The acquisition of Thurston is consistent with this strategy. In reaching its conclusion to approve the Merger and to recommend that its shareholders approve the Merger, Commencement's board of directors considered the financial analyses delivered to Commencement's board by representatives of PTCP as well as the written opinion of PTCP rendered to Commencement's board on July 7, 2016 with respect to the fairness, from a financial point of view, to the holders of Commencement common stock of the Merger Consideration, and with its legal counsel, Keller Rohrback L.L.P., as to its legal duties and the terms of the Merger Agreement and related agreements. Commencement entered into the Merger Agreement with Thurston because, among other things, Commencement believes that the acquisition of Thurston will:

- result in a meaningful improvement in operational scale in Commencement's existing footprint in the South Sound region;
- result in significant cost savings and synergies due to the consolidation of Thurston with Commencement and the reduction of typical back office expenses;
- be accretive to Commencement's earnings per share in fiscal year 2017, excluding non-recurring deal related expenses;
- enable Commencement to offer a broader range of products and services to Thurston customers;
- provide Commencement with significant opportunities for marketing synergies due to Thurston's strong relationship-based business banking model;
- improve and strengthen Commencement's existing deposit base by acquiring an attractive deposit franchise, comprised of 31.2% of non-interest bearing demand deposits to total deposits as of June 30, 2016;
- increase lending limits which will broaden its potential customer base and increase its ability to serve existing customers; and

- strengthen its management team with the addition of four (4) members from the board of directors of Thurston, and the addition of one (1) member to its Executive Management Team.

Commencement's board of directors also considered the potential adverse consequences of the proposed Merger, including:

- the possible disruption to Commencement's or Thurston's business that may result from the announcement of the Merger;
- the risk that the cost savings, operational synergies and other benefits expected result from the Merger might not be fully realized or not realized at all;
- the risk that the Merger might not be completed and the effect of the resulting public announcement of termination of the Merger Agreement on:
- the market price of Commencement's Stock, and
 - Commencement's operating results, particularly in light of the costs incurred in connection with the Merger; and
 - the potential risk of diverting management focus and resources from operational matters and other strategic opportunities while working to implement the Merger.

The foregoing discussion of the information considered by the Commencement board is not intended to be exhaustive but includes the material factors considered by the Commencement board. The Commencement board did not assign any relative or specific weights to the factors considered, and individual directors may have given differing weights to different factors.

Based on the reasons stated above, Commencement's board of directors believes that the Merger is in the best interest of Commencement and its shareholders and unanimously recommended that the Commencement shareholders vote "FOR" approval of the Merger.

COMMENCEMENT'S BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT COMMENCEMENT SHAREHOLDERS VOTE "FOR" APPROVAL OF THE MERGER AGREEMENT.

Opinion of Thurston First's Financial Advisor

On March, 30, 2016, Thurston First Bank ("Thurston") entered into an engagement agreement with D.A. Davidson & Co. ("Davidson") to render financial advisory and investment banking services to Thurston. As part of its engagement, Davidson agreed to assist Thurston in analyzing, structuring, negotiating and, if appropriate, effecting a transaction between Thurston and another corporation or business entity. Davidson also agreed to provide Thurston's board of directors with an opinion as to the fairness, from a financial point of view, of the consideration to be paid to the holders of the Thurston common stock in the proposed merger. Thurston engaged Davidson because Davidson is a nationally recognized investment banking firm with substantial experience in transactions similar to the merger and is familiar with Thurston and its business. As part of its investment banking business, Davidson is continually engaged in the valuation of financial institutions and their securities in connection with mergers and acquisitions and other corporate transactions.

On July 7, 2016, the Thurston board of directors held a meeting to evaluate the proposed merger. At this meeting, Davidson reviewed the financial aspects of the proposed merger and rendered an opinion to the Thurston board that, as such date and based upon and subject to assumptions made, procedures followed, matters considered and limitations on the review undertaken, the consideration to be paid to the holders of the Thurston common stock was fair, from a financial point of view, in the proposed merger.

The full text of Davidson's written opinion, dated July 7, 2016, is attached as *Appendix C* to this joint proxy statement-prospectus and is incorporated herein by reference. The description of the opinion set forth herein is qualified in its entirety by reference to the full text of such opinion. Thurston's shareholders are urged to read the opinion in its entirety.

Davidson's opinion speaks only as of the date of the opinion and Davidson undertakes no obligation to revise or update its opinion. The opinion is directed to the Thurston board of directors and addresses only the fairness, from a financial point of view, of the consideration to be paid to the holders of Thurston common stock in the proposed merger. The opinion does not address, and Davidson expresses no view or opinion with respect to, (i) the underlying business decision of Thurston to engage in or proceed with the merger, (ii) the relative merits or effect of the merger as compared to any strategic alternatives or business strategies or combinations that may be or may have been available to or contemplated by Thurston or Thurston's board of directors, or (iii) any legal, regulatory, accounting, tax or similar matters relating to Thurston, its shareholders or relating to or arising out of the merger. The opinion expresses no view or opinion as to any terms or other aspects of the merger. Thurston and Commencement Bank ("CBWA") determined the exchange ratio through the negotiation process. The opinion does not constitute a recommendation to any Thurston shareholder as to how such shareholder should vote at the Thurston meeting on the merger or any related matter. The opinion does not express any view as to the fairness of the amount or nature of the compensation to any of Thurston's or CBWA's officers, directors or employees, or any class of such persons, relative to the merger consideration. The opinion has been reviewed and approved by Davidson's Fairness Opinion Committee in conformity with its policies and procedures established under the requirements of Rule 5150 of the Financial Industry Regulatory Authority.

Davidson has reviewed the joint proxy statement-prospectus and consented to the inclusion of its opinion to the Thurston board of directors as *Appendix C* to this joint proxy statement-prospectus and to the references to Davidson and its opinion contained herein.

In connection with rendering its opinion, Davidson reviewed, analyzed and relied upon material bearing upon the merger and the financial and operating condition of Thurston and CBWA and the merger, including among other things, the following:

- drafts of the Agreement (including disclosure schedules) and Voting Agreement as of July 5, 2016;
- certain financial statements and other historical financial and business information about Thurston and CBWA made available to us from published sources and/or from the internal records of Thurston and CBWA;
- the current market environment generally and the banking environment in particular;
- the current and historical market prices and trading activity of the Thurston common stock with that of certain other publicly-traded companies that we deemed relevant;

- the current and historical market prices and trading activity of the CBWA common stock with that of certain other publicly-traded companies that we deemed relevant;
- the net present value of Thurston with consideration of projected financial results through 2021 (based on 2016 Thurston budget and estimated growth rates in years thereafter, as discussed and confirmed by senior management of Thurston);
- the financial terms of certain other similar merger-of-equal transactions in the financial institutions industry, to the extent publicly available;
- the relative contributions of Thurston and CBWA to the combined company;
- the market and trading characteristics of public companies and public bank holding companies;
- the pro forma financial impact of the Merger, taking into consideration the amounts and timing of the transaction costs and cost savings;
- the net present value of Thurston and CBWA, on a pro forma basis with the pro forma financial impact of the Merger, with consideration of the projected financial results; and
- such other information, financial studies, analyses and investigations and financial, economic and market criteria as we considered relevant, including discussions with management and other representatives and advisors of Thurston concerning the business, financial condition, results of operations and prospects of Thurston.

In arriving at its opinion, Davidson has assumed and relied upon the accuracy and completeness of all information supplied or otherwise made available to Davidson, discussed with or reviewed by or for Davidson, or publicly available, and Davidson has not assumed responsibility for independently verifying such information or undertaken an independent evaluation or appraisal of any of the assets or liabilities (contingent or otherwise) of Thurston or CBWA, nor did Davidson make an independent appraisal or analysis of Thurston or CBWA with respect to the merger. In addition, Davidson has not assumed any obligation to conduct, nor has Davidson conducted any physical inspection of the properties or facilities of Thurston or CBWA. Davidson has further relied on the assurances of management of Thurston and CBWA that they are not aware of any facts or circumstances that would make any of such information inaccurate or misleading. Davidson did not make an independent evaluation or appraisal of the specific assets or liabilities including the amount of any fair value adjustments per FASB 141(R). Davidson did not make an independent evaluation of the adequacy of the allowance for loan losses of Thurston or CBWA nor has Davidson reviewed any individual credit files relating to Thurston or CBWA. Davidson has assumed that the respective allowances for loan losses for both Thurston and CBWA are adequate to cover such losses and will be adequate on a pro forma basis for the combined entity. Davidson has assumed that there has been no material change in Thurston's or CBWA's assets, financial condition, results of operations, business or prospects since the date of the most recent financial statements provided to Davidson. Davidson has assumed in all respects material to its analysis that Thurston and CBWA will remain as going concerns for all periods relevant to its analysis. Davidson has also assumed in all respects material to its analysis that all of the representations and warranties contained in the merger agreement and all related agreements are true and correct, that each party to such agreements will perform all of the covenants required to be performed by such party under such agreements and that the conditions precedent in the merger agreement are not waived. Davidson has assumed that in the course of obtaining the necessary regulatory or other consents or approvals (contractual or otherwise) for the merger, no restrictions, including any divestiture requirements or amendment or modifications, will be imposed that will have a material adverse effect on

the contemplated benefits of the merger. Davidson's opinion is necessarily based upon information available to Davidson and economic, market, financial and other conditions as they exist and can be evaluated on the date the fairness opinion letter was delivered to Thurston's board of directors.

Set forth below is a summary of the material financial analyses performed by Davidson in connection with rendering its opinion. The summary of the analyses of Davidson set forth below is not a complete description of the analysis underlying its opinion, and the order in which these analyses are described below is not indicative of any relative weight or importance given to those analyses by Davidson. The following summaries of financial analyses include information presented in tabular format. You should read these tables together with the full text of the summary financial analyses, as the tables alone are not a complete description of the analyses.

Unless otherwise indicated, the following quantitative information, to the extent it is based on market data, is based on market data as of July 5, 2016, and is not necessarily indicative of market conditions after such date.

Summary of Proposal

Davidson reviewed the financial terms of the proposed transaction. As described in the merger agreement, each share of common stock of Thurston issued and outstanding immediately prior to the Effective Time, shall be converted into the right to receive 0.9024 shares of CBWA common stock together with cash paid in lieu of fractional shares. The terms and conditions of the merger are more fully described in the merger agreement. For purposes of the financial analyses described below, based on the closing price of CBWA common stock on July 5, 2016, of \$9.10, the consideration represented a value of \$8.21 per share of Thurston common stock. Based upon financial information as of or for the twelve month period ended March 31, 2016, Davidson calculated the following transaction ratios:

Transaction Ratios	
Transaction Price / Last Twelve Months Net Income	18.7x
Transaction Price / 2016E Net Income (1)	14.9x
Transaction Price / Tangible Book Value (Aggregate)	88.9%

(1) 2016 net income based on management projections

Stock Trading History of CBWA

Davidson reviewed the history of the reported trading prices and volume of CBWA common stock and the relationship between the movements in the prices of CBWA common stock to movements in certain stock indices, including the Standard & Poor's 500 Index, the SNL Bank Index and the NASDAQ Bank Index.

One Year Stock Performance		
	Beginning Index Value on 7/6/2015	Ending Index Value on 7/5/2016
Standard & Poor's 500 Index	100.0%	101.0%
SNL Bank Index	100.0%	83.1%
NASDAQ Bank Index	100.0%	91.9%
CBWA	100.0%	68.7%

90 Day Stock Performance		
	Beginning Index Value on 2/26/2016	Ending Index Value on 7/5/2016
Standard & Poor's 500 Index	100.0%	107.2%
SNL Bank Index	100.0%	101.0%
NASDAQ Bank Index	100.0%	103.9%
CBWA	100.0%	102.2%

Stock Trading Volume	
	CBWA Shares Traded
10-Day (Aggregate)	100
30-Day (Aggregate)	547
60-Day (Aggregate)	23,716
90-Day (Aggregate)	32,916
Last Twelve Months (Aggregate)	224,423

Premium to Thurston Market Transactions

Davidson reviewed the history of the reported trading prices and volume of Thurston common stock and the relative premium of the consideration to be paid to the holders of the Thurston common stock as compared to the last trade and volume weighted average price (“VWAP”) since January 1, 2015. Based on the \$8.21 per share consideration for Thurston common stock, the price per share represented a 26.3% premium to the last trade of \$6.50 per share, completed on June 1, 2016, and a 26.3% premium to the VWAP of \$6.50 since January 1, 2015.

Contribution Analysis

Davidson analyzed the relative contribution of Thurston and CBWA to certain financial and operating metrics for the pro forma combined company. Such financial and operating metrics included: (i) core pre-tax pre-provision income during the preceding twelve months ended March 31, 2016; (ii) net income available for common shareholders during the preceding twelve months ended March 31, 2016; (iii) net income available for common shareholders during the preceding twelve months ended December 31, 2015; (iv) estimates for CBWA net income in 2016 and 2017 based on CBWA management’s forecast and estimates for Thurston net income in 2016 and 2017 based on Thurston management’s forecast; (v) total assets; (vi) gross loans; (vii) total deposits; (viii) tangible common equity. The relative contribution analysis did not give effect to the impact of any synergies as a result of the proposed merger. The results of this analysis are summarized in the table below:

Contribution Analysis

	CBWA Stand-alone March 31, 2016	CBWA % of Total	TFB Stand-alone March 31, 2016	TFB % of Total	Total (1)
<u>Income Statement - Historical</u>					
LTM Core Pre-Tax Pre-Provision Income (in thousands) (2)	\$ 1,611	65.1%	\$ 863	34.9%	\$ 2,474
LTM Net Income (in thousands) (3)	\$ 1,188	66.7%	\$ 593	33.3%	\$ 1,781
2015 Net Income (in thousands) (4)	\$ 1,142	68.5%	\$ 526	31.5%	\$ 1,668
<u>Income Statement - Projections</u>					
2016 Est. Net Income (in thousands) (5)	\$ 1,086	59.3%	\$ 745	40.7%	\$ 1,831
2017 Est. Net Income (in thousands) (5)	\$ 1,586	61.7%	\$ 983	38.3%	\$ 2,569
<u>Balance Sheet</u>					
Total Assets (in thousands)	\$ 177,172	57.6%	\$ 130,656	42.4%	\$ 307,828
Gross Loans (in thousands)	\$ 151,724	66.6%	\$ 76,029	33.4%	\$ 227,753
Total Deposits (in thousands)	\$ 150,456	56.8%	\$ 114,325	43.2%	\$ 264,781
Tangible Common Equity (in thousands)	\$ 22,838	64.6%	\$ 12,509	35.4%	\$ 35,347
<u>Pro Forma Ownership</u>					
Merger Scenario - Actual (6)		64.5%		35.5%	

(1) Total does not include any purchase accounting or merger adjustments

(2) Core pre-tax pre-provision income is income before taxes and provision expense, for the preceding twelve months ending March 31, 2016

(3) Net income available for common shareholders, for the preceding twelve months ending March 31, 2016

(4) Net income available for common shareholders, for the preceding twelve months ending December 31, 2015

(5) Net income available for common shareholders based on management forecast for CBWA and TFB

(6) Actual pro forma ownership based on 0.9024x exchange ratio

Thurston Comparable Companies Analysis

Group 1

Davidson used publicly available information to compare selected financial and market trading information for Thurston and a group of 11 financial institutions selected by Davidson which: (i) were banks with common stock listed on the over-the-counter markets (OTC); (ii) were headquartered in Washington, Oregon or Idaho; and (iii) had total assets below \$200.0 million. The 11 financial institutions were as follows:

Commencement Bank	Community 1st Bank
Oregon Bancorp, Inc.	Willamette Community Bank
Lewis & Clark Bank	Clatsop Community Bank
CenterPointe Community Bank	Plaza Bank
First Sound Bank	Pacific West Bank
Idaho First Bank	

The analysis compared publicly available financial and market trading information for Thurston and the data for the 11 financial institutions identified above as of and for the three-month period ended March 31, 2016. The table below compares the data for Thurston and the data for the 11 financial institutions identified above, with pricing data as of July 5, 2016.

Financial Condition and Performance					
	TFB	Comparable Companies			
		Median	Average	Minimum	Maximum
Total Assets (in millions)	\$130.7	\$118.6	\$116.7	\$56.2	\$177.2
Non-Performing Assets / Total Assets	1.33%	1.22%	1.09%	0.00%	2.61%
Tangible Common Equity Ratio	9.57%	11.06%	11.22%	8.75%	13.14%
Loan / Deposit Ratio	66.5%	91.5%	86.9%	68.4%	100.8%
Net Interest Margin (Most Recent Quarter)	3.04%	3.98%	4.08%	3.69%	4.57%
Efficiency Ratio (Most Recent Quarter)	78.5%	81.0%	84.3%	61.3%	104.0%
Return on Average Tangible Common Equity (Most Recent Quarter)	4.91%	4.77%	5.45%	-3.80%	16.11%
Return on Average Assets (Most Recent Quarter)	0.45%	0.59%	0.59%	-0.49%	1.70%

Market Performance Multiples					
	TFB	Comparable Companies			
		Median	Average	Minimum	Maximum
Market Capitalization (in millions)	-	\$11.0	\$12.1	\$6.9	\$20.2
Price / Tangible Book Value Per Share	-	88.4%	94.1%	65.0%	145.1%
Price / LTM Earnings Per Share	-	12.2x	12.8x	7.7x	17.2x

Group 2

Davidson used publicly available information to compare selected financial and market trading information for Thurston and a group of 15 financial institutions selected by Davidson which: (i) were banks with common stock listed on the over-the-counter markets (OTC); (ii) were headquartered nationwide; (iii) had total assets between \$100.0 million and \$200.0 million; (iv) had a return on average assets that was between 0.30% and 1.00% for the twelve-month period ended March 31, 2016; and non-performing assets to total assets between 0.50% and 1.50% for the period ended March 31, 2016. The 15 financial institutions were as follows:

AMB Financial Corp.	Clarion County Community Bank
Security Bancorp, Inc.	CBC Holding Company
CCB Bankshares, Inc.	Patriot Federal Bank
Sound Banking Company	Tri-Valley Bank
Mercersburg Financial Corporation	Huron Valley Bancorp, Inc.
Lafayette Community Bancorp	Wake Forest Bancshares, Inc. (MHC)
BlueHarbor Bank	Southern Banc Company, Inc.
Home City Financial Corporation	

The analysis compared publicly available financial and market trading information for Thurston and the data for the 15 financial institutions identified above as of and for the three-month period ended March 31, 2016. The table below compares the data for Thurston and the data for the 15 financial institutions identified above, with pricing data as of July 5, 2016.

Financial Condition and Performance					
	TFB	Comparable Companies			
		Median	Average	Minimum	Maximum
Total Assets (in millions)	\$130.7	\$153.0	\$149.3	\$100.1	\$190.2
Non-Performing Assets / Total Assets	1.33%	0.76%	0.90%	0.61%	1.49%
Tangible Common Equity Ratio	9.57%	11.00%	11.54%	8.00%	21.51%
Loan / Deposit Ratio	66.5%	92.6%	90.0%	71.7%	118.1%
Net Interest Margin (Most Recent Quarter)	3.04%	3.70%	3.70%	3.03%	4.25%
Efficiency Ratio (Most Recent Quarter)	78.5%	76.7%	75.2%	55.7%	97.8%
Return on Average Tangible Common Equity (Most Recent Quarter)	4.91%	5.21%	5.87%	2.77%	10.98%
Return on Average Assets (Most Recent Quarter)	0.45%	0.61%	0.63%	0.30%	0.98%

Market Performance Multiples					
	TFB	Comparable Companies			
		Median	Average	Minimum	Maximum
Market Capitalization (in millions)	-	\$14.0	\$14.4	\$7.9	\$21.9
Price / Tangible Book Value Per Share	-	81.3%	85.8%	54.3%	159.0%
Price / LTM Earnings Per Share	-	13.5x	14.1x	6.4x	22.3x

CBWA Comparable Companies Analysis

Group 1

Davidson used publicly available information to compare selected financial and market trading information for CBWA and a group of 17 financial institutions selected by Davidson which: (i) were banks with common stock listed on the over-the-counter markets (OTC); (ii) were headquartered in Washington, Oregon or Idaho; and (iii) had total assets below \$500.0 million. The 17 financial institutions were as follows:

Puget Sound Bancorp, Inc.	CenterPointe Community Bank
Premier Commercial Bancorp	First Sound Bank
BEO Bancorp	Idaho First Bank
U & I Financial Corp.	Community 1st Bank
People's Bank of Commerce	Willamette Community Bank
Summit Bank	Clatsop Community Bank
Oregon Pacific Bancorp	Plaza Bank
Oregon Bancorp, Inc.	Pacific West Bank
Lewis & Clark Bank	

The analysis compared publicly available financial and market trading information for CBWA and the data for the 17 financial institutions identified above as of and for the three-month period ended March 31, 2016. The table below compares the data for CBWA and the data for the 17 financial institutions identified above, with pricing data as of July 5, 2016.

Financial Condition and Performance					
	CBWA	Comparable Companies			
		Median	Average	Minimum	Maximum
Total Assets (in millions)	\$177.2	\$157.6	\$194.5	\$56.2	\$473.0
Non-Performing Assets / Total Assets	0.23%	1.77%	1.39%	0.00%	2.61%
Tangible Common Equity Ratio	12.89%	10.33%	10.33%	7.60%	13.14%
Loan / Deposit Ratio	100.8%	89.5%	84.7%	66.4%	104.8%
Net Interest Margin (Most Recent Quarter)	3.94%	3.98%	4.12%	3.33%	5.29%
Efficiency Ratio (Most Recent Quarter)	76.4%	80.1%	79.6%	60.6%	104.0%
Return on Average Tangible Common Equity (Most Recent Quarter)	4.77%	6.10%	6.55%	-3.80%	16.11%
Return on Average Assets (Most Recent Quarter)	0.59%	0.63%	0.66%	-0.49%	1.70%

Market Performance Multiples					
	CBWA	Comparable Companies			
		Median	Average	Minimum	Maximum
Market Capitalization (in millions)	\$20.2	\$16.4	\$21.3	\$6.9	\$63.3
Price / Tangible Book Value Per Share	88.4%	97.1%	104.3%	65.0%	156.9%
Price / LTM Earnings Per Share	17.2x	12.8x	13.1x	7.7x	19.3x

Group 2

Davidson used publicly available information to compare selected financial and market trading information for Thurston and a group of 11 financial institutions selected by Davidson which: (i) were banks with common stock listed on the over-the-counter markets (OTC); (ii) were headquartered nationwide; (iii) had total assets between \$150.0 million and \$200.0 million; (iv) had a return on average assets that was between 0.40% and 1.00% for the twelve-month period ended March 31, 2016; and non-performing assets to total assets under 1.00% for the period ended March 31, 2016. The 11 financial institutions were as follows:

JTNB Bancorp, Inc.	Golden Valley Bank
AMB Financial Corp.	Mercersburg Financial Corporation
Security Bancorp, Inc.	Chino Commercial Bancorp
CCB Bankshares, Inc.	BlueHarbor Bank
Oak View National Bank	Apollo Bancorp, Inc.
Folsom Lake Bank	

The analysis compared publicly available financial and market trading information for CBWA and the data for the 11 financial institutions identified above as of and for the three-month period ended March 31, 2016. The table below compares the data for CBWA and the data for the 11 financial institutions identified above, with pricing data as of July 5, 2016.

Financial Condition and Performance					
	CBWA	Comparable Companies			
		Median	Average	Minimum	Maximum
Total Assets (in millions)	\$177.2	\$182.4	\$178.2	\$155.7	\$196.8
Non-Performing Assets / Total Assets	0.23%	0.32%	0.35%	0.00%	0.77%
Tangible Common Equity Ratio	12.89%	10.01%	10.31%	7.60%	14.34%
Loan / Deposit Ratio	100.8%	78.6%	79.7%	43.3%	100.8%
Net Interest Margin (Most Recent Quarter)	3.94%	3.79%	3.64%	2.84%	4.03%
Efficiency Ratio (Most Recent Quarter)	76.4%	74.4%	74.4%	63.5%	82.5%
Return on Average Tangible Common Equity (Most Recent Quarter)	4.77%	5.95%	6.82%	4.75%	12.70%
Return on Average Assets (Most Recent Quarter)	0.59%	0.68%	0.67%	0.51%	0.96%

Market Performance Multiples					
	CBWA	Comparable Companies			
		Median	Average	Minimum	Maximum
Market Capitalization (in millions)	\$20.2	\$15.2	\$17.2	\$12.4	\$23.6
Price / Tangible Book Value Per Share	88.4%	83.4%	95.0%	74.6%	140.0%
Price / LTM Earnings Per Share	17.2x	15.3x	15.5x	8.9x	21.9x

Precedent Merger-of-Equals Transactions Analysis

Davidson reviewed comparable merger-of-equals transactions and including contribution ratios and resulting pro forma ownership.

“Merger-of-Equals transactions,” included 16 transactions where:

- the transaction was announced between January 1, 2013 and July 5, 2016;
- the transaction involved banks headquartered nationwide;
- the merger was classified as a merger-of-equals transaction; and
- excludes transactions with partial cash consideration.

The following table sets forth the included merger-of-equals transaction and are sorted by announcement date:

Merger-of-Equals Transactions

<u>Announcement Date</u>	<u>Acquirer</u>	<u>Target</u>
2/18/2016*	County Bank Corp	Capac Bancorp, Inc.
12/7/2015*	BBCN Bancorp, Inc.	Wilshire Bancorp, Inc.
11/20/2015	Middletown Valley Bank	Woodsboro Bank
11/8/2015	Grayson Bankshares, Inc.	Cardinal Bankshares Corp.
9/8/2015	Nicolet Bankshares, Inc.	Baylake Corp.
12/8/2014	SmartFinancial, Inc.	Cornerstone Banc., Inc.
7/3/2014	Financial Services HC	Ohio Valley Bancorp, Inc.
4/28/2014	Commerce Union Banc., Inc.	Reliant Bank
1/27/2014	Yadkin Financial Corporation	VantageSouth Banc., Inc.
1/21/2014	Center Bancorp, Inc.	ConnectOne Bancorp, Inc.
11/21/2013	Franklin Financial Network, Inc.	MidSouth Bank
8/15/2013	Mercantile Bank Corporation	Firstbank Corporation
8/8/2013	Carolina Alliance Bank	Forest Commercial Bank
6/28/2013	Peoples FS Corp.	Penseco FS Corp.
5/17/2013	Commercial Bancshares, Inc.	City State Bancshares, Inc.
4/4/2013	Provident New York Bancorp	Sterling Bancorp

**Indicates the transaction was pending as of July 5, 2016.*

For each transaction referred to above, Davidson compared, among other things, the following implied ratios:

- accounting target relative tangible common equity contribution to the pro forma company;
- accounting target last twelve months net income contribution to the pro forma company;
- accounting target average contribution of both tangible common equity and last twelve months net income contribution to the pro forma company; and
- accounting target pro forma ownership based on the announced exchange ratio.

As illustrated in the following table, Davidson compared the proposed pro forma ownership and relative contribution to the pro forma ownership and relative contribution the comparable merger-of-equals transactions. The table below sets forth the data for the comparable merger-of-equals transactions as of the

last twelve months ended prior to the transaction announcement and Thurston data for the last twelve months ended March 31, 2016.

	Target Relative Contribution		Merger-of-Equals Transactions	
	TFB	Median	Average	
Total Assets	42.4%	44.2%	45.5%	
Total Deposits	43.2%	43.7%	45.4%	
Total Loans	33.4%	45.1%	45.6%	
Tangible Common Equity	35.4%	41.7%	43.4%	
Net Income (Last Twelve Months)	33.3%	45.2%	45.5%	
Pro Forma Ownership	35.5%	45.0%	45.8%	
Difference Between Pro Forma Ownership and Tangible Common Equity Contribution	0.1%	2.0%	0.0%	
Difference Between Pro Forma Ownership and Net Income Contribution	2.2%	2.0%	0.1%	

Net Present Value Analysis for Thurston

Davidson performed an analysis that estimated the net present value per share of Thurston common stock under various circumstances. The analysis assumed: (i) Thurston performed in accordance with Thurston management's financial forecasts for the years ending December 31, 2016 through December 31, 2018; (ii) an estimated long-term growth rate for the years thereafter, as discussed with and confirmed by Thurston management. To approximate the terminal value of Thurston common stock at December 31, 2021, Davidson applied price to earnings multiples of 11.0x to 18.0x and multiples of tangible book value ranging from 80% to 150%. The income streams and terminal values were then discounted to present values using different discount rates ranging from 12.0% to 18.0% chosen to reflect different assumptions regarding required rates of return of holders or prospective buyers of Thurston's common stock. In evaluating the discount rate, Davidson used industry standard methods of adding the current risk-free rate, which is based on the 10-year Treasury yield, plus the published Ibbotson Equity Risk Premium, plus the published Ibbotson Size Premium, and plus the published Ibbotson Industry Premium.

At the July 7, 2016 Thurston board of directors meeting, Davidson noted that the net present value analysis is a widely used valuation methodology, but the results of such methodology are highly dependent upon the numerous assumptions that must be made, and the results thereof are not necessarily indicative of actual values or future results.

As illustrated in the following tables, the analysis indicates an imputed range of values per share of Thurston common stock of \$6.62 to \$14.07 when applying the price to earnings multiples to the financial forecasts and \$5.31 to \$12.92 when applying the multiples of tangible book value to the financial forecasts.

Earnings Per Share Multiples

Discount Rate	Earnings Per Share Multiple							
	11.0x	12.0x	13.0x	14.0x	15.0x	16.0x	17.0x	18.0x
12.0%	\$ 8.60	\$ 9.38	\$ 10.16	\$ 10.94	\$ 11.72	\$ 12.50	\$ 13.29	\$ 14.07
13.0%	\$ 8.22	\$ 8.97	\$ 9.72	\$ 10.47	\$ 11.21	\$ 11.96	\$ 12.71	\$ 13.46
14.0%	\$ 7.87	\$ 8.58	\$ 9.30	\$ 10.01	\$ 10.73	\$ 11.44	\$ 12.16	\$ 12.88
15.0%	\$ 7.53	\$ 8.22	\$ 8.90	\$ 9.59	\$ 10.27	\$ 10.96	\$ 11.64	\$ 12.32
16.0%	\$ 7.21	\$ 7.87	\$ 8.52	\$ 9.18	\$ 9.84	\$ 10.49	\$ 11.15	\$ 11.80
17.0%	\$ 6.91	\$ 7.54	\$ 8.17	\$ 8.79	\$ 9.42	\$ 10.05	\$ 10.68	\$ 11.31
18.0%	\$ 6.62	\$ 7.22	\$ 7.83	\$ 8.43	\$ 9.03	\$ 9.63	\$ 10.23	\$ 10.84

Tangible Book Value Multiples

Discount Rate	Tangible Book Value Per Share Multiple							
	80%	90%	100%	110%	120%	130%	140%	150%
12.0%	\$ 6.89	\$ 7.75	\$ 8.61	\$ 9.47	\$ 10.33	\$ 11.19	\$ 12.06	\$ 12.92
13.0%	\$ 6.59	\$ 7.41	\$ 8.24	\$ 9.06	\$ 9.88	\$ 10.71	\$ 11.53	\$ 12.36
14.0%	\$ 6.31	\$ 7.09	\$ 7.88	\$ 8.67	\$ 9.46	\$ 10.25	\$ 11.03	\$ 11.82
15.0%	\$ 6.04	\$ 6.79	\$ 7.54	\$ 8.30	\$ 9.05	\$ 9.81	\$ 10.56	\$ 11.32
16.0%	\$ 5.78	\$ 6.50	\$ 7.22	\$ 7.95	\$ 8.67	\$ 9.39	\$ 10.11	\$ 10.84
17.0%	\$ 5.54	\$ 6.23	\$ 6.92	\$ 7.61	\$ 8.31	\$ 9.00	\$ 9.69	\$ 10.38
18.0%	\$ 5.31	\$ 5.97	\$ 6.63	\$ 7.30	\$ 7.96	\$ 8.62	\$ 9.29	\$ 9.95

Davidson also considered and discussed with the Thurston board of directors how this analysis would be affected by changes in the underlying assumptions, including variations with respect to net income. To illustrate this impact, Davidson performed a similar analysis assuming Thurston estimated earnings per share in 2021 varied from 20.0% above projections to 20.0% below projections. This analysis resulted in the following range of per share values for Thurston common stock, using the same price to earnings multiples of 11.0x to 13.0x and a discount rate of 13.0%.

Variance to 2021 EPS	Earnings Per Share Multiple							
	11.0x	12.0x	13.0x	14.0x	15.0x	16.0x	17.0x	18.0x
20.0%	\$ 9.87	\$ 10.76	\$ 11.66	\$ 12.56	\$ 13.46	\$ 14.35	\$ 15.25	\$ 16.15
15.0%	\$ 9.46	\$ 10.32	\$ 11.18	\$ 12.04	\$ 12.89	\$ 13.75	\$ 14.61	\$ 15.47
10.0%	\$ 9.05	\$ 9.87	\$ 10.69	\$ 11.51	\$ 12.33	\$ 13.16	\$ 13.98	\$ 14.80
5.0%	\$ 8.63	\$ 9.42	\$ 10.20	\$ 10.99	\$ 11.77	\$ 12.56	\$ 13.34	\$ 14.13
0.0%	\$ 8.22	\$ 8.97	\$ 9.72	\$ 10.47	\$ 11.21	\$ 11.96	\$ 12.71	\$ 13.46
-5.0%	\$ 7.81	\$ 8.52	\$ 9.23	\$ 9.94	\$ 10.65	\$ 11.36	\$ 12.07	\$ 12.78
-10.0%	\$ 7.40	\$ 8.07	\$ 8.75	\$ 9.42	\$ 10.09	\$ 10.76	\$ 11.44	\$ 12.11
-15.0%	\$ 6.99	\$ 7.62	\$ 8.26	\$ 8.90	\$ 9.53	\$ 10.17	\$ 10.80	\$ 11.44
-20.0%	\$ 6.58	\$ 7.18	\$ 7.77	\$ 8.37	\$ 8.97	\$ 9.57	\$ 10.17	\$ 10.76

Net Present Value Analysis for CBWA

Davidson performed an analysis that estimated the net present value per share of CBWA common stock under various circumstances. The analysis assumed: (i) CBWA performed in accordance with CBWA management's financial forecasts for the years ending December 31, 2016 through December 31, 2018; and (ii) financial projections the years thereafter, as provided by Performance Trust and CBWA management. To approximate the terminal value of CBWA common stock at December 31, 2021, Davidson applied price to earnings multiples of 11.0x to 18.0x and multiples of tangible book value ranging from 80% to 150%. The income streams and terminal values were then discounted to present values using different discount rates ranging from 10.0% to 16.0% chosen to reflect different assumptions regarding required rates of return of holders or prospective buyers of CBWA's common stock. In evaluating the discount rate, Davidson used industry standard methods of adding the current risk-free rate, which is based on the 10-year Treasury yield, plus the published Ibbotson Equity Risk Premium, plus the published Ibbotson Size Premium, and plus the published Ibbotson Industry Premium.

At the July 7, 2016 Thurston board of directors meeting, Davidson noted that the net present value analysis is a widely used valuation methodology, but the results of such methodology are highly dependent upon the numerous assumptions that must be made, and the results thereof are not necessarily indicative of actual values or future results.

As illustrated in the following tables, the analysis indicates an imputed range of values per share of CBWA common stock of \$8.42 to \$17.98 when applying the price to earnings multiples to the financial forecasts and \$6.73 to \$15.72 when applying the multiples of tangible book value to the financial forecasts.

Earnings Per Share Multiples

Discount Rate	Earnings Per Share Multiple							
	11.0x	12.0x	13.0x	14.0x	15.0x	16.0x	17.0x	18.0x
10.0%	\$ 10.99	\$ 11.98	\$ 12.98	\$ 13.98	\$ 14.98	\$ 15.98	\$ 16.98	\$ 17.98
11.0%	\$ 10.50	\$ 11.45	\$ 12.41	\$ 13.36	\$ 14.32	\$ 15.27	\$ 16.23	\$ 17.18
12.0%	\$ 10.04	\$ 10.95	\$ 11.86	\$ 12.78	\$ 13.69	\$ 14.60	\$ 15.51	\$ 16.43
13.0%	\$ 9.60	\$ 10.47	\$ 11.35	\$ 12.22	\$ 13.09	\$ 13.97	\$ 14.84	\$ 15.71
14.0%	\$ 9.19	\$ 10.02	\$ 10.86	\$ 11.69	\$ 12.53	\$ 13.36	\$ 14.20	\$ 15.03
15.0%	\$ 8.79	\$ 9.59	\$ 10.39	\$ 11.19	\$ 11.99	\$ 12.79	\$ 13.59	\$ 14.39
16.0%	\$ 8.42	\$ 9.19	\$ 9.95	\$ 10.72	\$ 11.48	\$ 12.25	\$ 13.02	\$ 13.78

Tangible Book Value Multiples

Discount Rate	Tangible Book Value Per Share Multiple							
	80%	90%	100%	110%	120%	130%	140%	150%
10.0%	\$ 8.38	\$ 9.43	\$ 10.48	\$ 11.53	\$ 12.57	\$ 13.62	\$ 14.67	\$ 15.72
11.0%	\$ 8.01	\$ 9.01	\$ 10.01	\$ 11.02	\$ 12.02	\$ 13.02	\$ 14.02	\$ 15.02
12.0%	\$ 7.66	\$ 8.62	\$ 9.57	\$ 10.53	\$ 11.49	\$ 12.45	\$ 13.40	\$ 14.36
13.0%	\$ 7.33	\$ 8.24	\$ 9.16	\$ 10.07	\$ 10.99	\$ 11.91	\$ 12.82	\$ 13.74
14.0%	\$ 7.01	\$ 7.89	\$ 8.76	\$ 9.64	\$ 10.52	\$ 11.39	\$ 12.27	\$ 13.15
15.0%	\$ 6.71	\$ 7.55	\$ 8.39	\$ 9.23	\$ 10.07	\$ 10.91	\$ 11.74	\$ 12.58
16.0%	\$ 6.43	\$ 7.23	\$ 8.03	\$ 8.84	\$ 9.64	\$ 10.44	\$ 11.25	\$ 12.05

Davidson also considered and discussed with the Thurston board of directors how this analysis would be affected by changes in the underlying assumptions, including variations with respect to net income. To illustrate this impact, Davidson performed a similar analysis assuming CBWA estimated earnings per share in 2021 varied from 20.0% above projections to 20.0% below projections. This analysis resulted in the following range of per share values for CBWA common stock, using the same price to earnings multiples of 11.0x to 18.0x and a discount rate of 13.0%.

Variance to 2021 EPS	Earnings Per Share Multiple							
	11.0x	12.0x	13.0x	14.0x	15.0x	16.0x	17.0x	18.0x
20.0%	\$ 11.52	\$ 12.57	\$ 13.62	\$ 14.66	\$ 15.71	\$ 16.76	\$ 17.81	\$ 18.85
15.0%	\$ 11.04	\$ 12.05	\$ 13.05	\$ 14.05	\$ 15.06	\$ 16.06	\$ 17.06	\$ 18.07
10.0%	\$ 10.56	\$ 11.52	\$ 12.48	\$ 13.44	\$ 14.40	\$ 15.36	\$ 16.32	\$ 17.28
5.0%	\$ 10.08	\$ 11.00	\$ 11.91	\$ 12.83	\$ 13.75	\$ 14.66	\$ 15.58	\$ 16.50
0.0%	\$ 9.60	\$ 10.47	\$ 11.35	\$ 12.22	\$ 13.09	\$ 13.97	\$ 14.84	\$ 15.71
-5.0%	\$ 9.12	\$ 9.95	\$ 10.78	\$ 11.61	\$ 12.44	\$ 13.27	\$ 14.10	\$ 14.93
-10.0%	\$ 8.64	\$ 9.43	\$ 10.21	\$ 11.00	\$ 11.78	\$ 12.57	\$ 13.35	\$ 14.14
-15.0%	\$ 8.16	\$ 8.90	\$ 9.65	\$ 10.39	\$ 11.13	\$ 11.87	\$ 12.61	\$ 13.35
-20.0%	\$ 7.68	\$ 8.38	\$ 9.08	\$ 9.78	\$ 10.47	\$ 11.17	\$ 11.87	\$ 12.57

Net Present Value Analysis for Pro Forma CBWA

Davidson performed an analysis that estimated the net present value per share of Thurston common stock under various circumstances, including the impact of the merger with CBWA. The analysis assumed: (i) Thurston performed in accordance with Thurston management's financial forecasts for the years ending December 31, 2016 through December 31, 2018; and (ii) an estimated long-term growth rate for the years thereafter, as discussed with and confirmed by Thurston management; and (iii) the pro forma financial impact of the merger-of-equals with CBWA including the cost savings estimates, purchase accounting adjustments and transaction expenses, as discussed with and confirmed by both Thurston and CBWA management. The analysis assumed (i) CBWA performed in accordance with CBWA management's financial forecasts for the years ending December 31, 2016 through December 31, 2018; and (ii) financial projections the years thereafter, as provided by Performance Trust and CBWA management. To

approximate the terminal value of pro forma CBWA common stock at December 31, 2021, Davidson applied price to earnings multiples of 11.0x to 18.0x and multiples of tangible book value ranging from 80% to 150%. The income streams and terminal values were then discounted to present values using different discount rates ranging from 10.0% to 16.0% chosen to reflect different assumptions regarding required rates of return of holders or prospective buyers of CBWA's common stock. In evaluating the discount rate, Davidson used industry standard methods of adding the current risk-free rate, which is based on the 10-year Treasury yield, plus the published Ibbotson Equity Risk Premium, plus the published Ibbotson Size Premium, and plus the published Ibbotson Industry Premium.

At the July 7, 2016 Thurston board of directors meeting, Davidson noted that the net present value analysis is a widely used valuation methodology, but the results of such methodology are highly dependent upon the numerous assumptions that must be made, and the results thereof are not necessarily indicative of actual values or future results.

As illustrated in the following tables, the analysis indicates an imputed range of values per share of Thurston common stock, after adjusting for the exchange ratio of \$8.56 to \$18.28 when applying the price to earnings multiples to the financial forecasts and \$5.99 to \$14.65 when applying the multiples of tangible book value to the financial forecasts.

Earnings Per Share Multiples

Discount Rate	Earnings Per Share Multiple							
	11.0x	12.0x	13.0x	14.0x	15.0x	16.0x	17.0x	18.0x
10.0%	\$ 11.17	\$ 12.18	\$ 13.20	\$ 14.22	\$ 15.23	\$ 16.25	\$ 17.26	\$ 18.28
11.0%	\$ 10.68	\$ 11.65	\$ 12.62	\$ 13.59	\$ 14.56	\$ 15.53	\$ 16.50	\$ 17.47
12.0%	\$ 10.21	\$ 11.13	\$ 12.06	\$ 12.99	\$ 13.92	\$ 14.85	\$ 15.77	\$ 16.70
13.0%	\$ 9.76	\$ 10.65	\$ 11.54	\$ 12.43	\$ 13.31	\$ 14.20	\$ 15.09	\$ 15.98
14.0%	\$ 9.34	\$ 10.19	\$ 11.04	\$ 11.89	\$ 12.74	\$ 13.59	\$ 14.44	\$ 15.29
15.0%	\$ 8.94	\$ 9.76	\$ 10.57	\$ 11.38	\$ 12.19	\$ 13.01	\$ 13.82	\$ 14.63
16.0%	\$ 8.56	\$ 9.34	\$ 10.12	\$ 10.90	\$ 11.68	\$ 12.46	\$ 13.23	\$ 14.01

Tangible Book Value Multiples

Discount Rate	Tangible Book Value Per Share Multiple							
	80%	90%	100%	110%	120%	130%	140%	150%
10.0%	\$ 7.82	\$ 8.79	\$ 9.77	\$ 10.75	\$ 11.72	\$ 12.70	\$ 13.68	\$ 14.65
11.0%	\$ 7.47	\$ 8.40	\$ 9.34	\$ 10.27	\$ 11.20	\$ 12.14	\$ 13.07	\$ 14.01
12.0%	\$ 7.14	\$ 8.03	\$ 8.93	\$ 9.82	\$ 10.71	\$ 11.61	\$ 12.50	\$ 13.39
13.0%	\$ 6.83	\$ 7.68	\$ 8.54	\$ 9.39	\$ 10.25	\$ 11.10	\$ 11.95	\$ 12.81
14.0%	\$ 6.54	\$ 7.35	\$ 8.17	\$ 8.99	\$ 9.80	\$ 10.62	\$ 11.44	\$ 12.26
15.0%	\$ 6.26	\$ 7.04	\$ 7.82	\$ 8.60	\$ 9.39	\$ 10.17	\$ 10.95	\$ 11.73
16.0%	\$ 5.99	\$ 6.74	\$ 7.49	\$ 8.24	\$ 8.99	\$ 9.74	\$ 10.49	\$ 11.23

Davidson also considered and discussed with the Thurston board of directors how this analysis would be affected by changes in the underlying assumptions, including variations with respect to net income. To illustrate this impact, Davidson performed a similar analysis assuming CBWA's pro forma estimated earnings per share in 2021 varied from 20.0% above projections to 20.0% below projections. This analysis resulted in the following range of per share values for Thurston common stock, after adjusting for the exchange ratio, using the same price to earnings multiples of 11.0x to 18.0x, and using a discount rate of 13.0%.

Variance to 2021 EPS	Earnings Per Share Multiple								
	11.0x	12.0x	13.0x	14.0x	15.0x	16.0x	17.0x	18.0x	
20.0%	\$ 11.72	\$ 12.78	\$ 13.85	\$ 14.91	\$ 15.98	\$ 17.04	\$ 18.11	\$ 19.17	
15.0%	\$ 11.23	\$ 12.25	\$ 13.27	\$ 14.29	\$ 15.31	\$ 16.33	\$ 17.35	\$ 18.37	
10.0%	\$ 10.74	\$ 11.72	\$ 12.69	\$ 13.67	\$ 14.64	\$ 15.62	\$ 16.60	\$ 17.57	
5.0%	\$ 10.25	\$ 11.18	\$ 12.11	\$ 13.05	\$ 13.98	\$ 14.91	\$ 15.84	\$ 16.77	
0.0%	\$ 9.76	\$ 10.65	\$ 11.54	\$ 12.43	\$ 13.31	\$ 14.20	\$ 15.09	\$ 15.98	
-5.0%	\$ 9.27	\$ 10.12	\$ 10.96	\$ 11.80	\$ 12.65	\$ 13.49	\$ 14.33	\$ 15.18	
-10.0%	\$ 8.79	\$ 9.59	\$ 10.38	\$ 11.18	\$ 11.98	\$ 12.78	\$ 13.58	\$ 14.38	
-15.0%	\$ 8.30	\$ 9.05	\$ 9.81	\$ 10.56	\$ 11.32	\$ 12.07	\$ 12.82	\$ 13.58	
-20.0%	\$ 7.81	\$ 8.52	\$ 9.23	\$ 9.94	\$ 10.65	\$ 11.36	\$ 12.07	\$ 12.78	

Financial Impact Analysis

Davidson performed pro forma merger analyses that combined projected income statement and balance sheet information of Thurston and CBWA. Assumptions regarding the accounting treatment, acquisition adjustments and cost savings were used to calculate the financial impact that the merger would have on certain projected financial results of the pro-forma company. In the course of this analysis, Davidson used Thurston management's financial forecasts for the years ending December 31, 2016 through December 31, 2018; and an estimated long-term growth rate for the years thereafter, as discussed with and confirmed by Thurston management, and used CBWA management's financial forecasts for the years ending December 31, 2016 through December 31, 2018; and financial projections the years thereafter, as provided by Performance Trust and CBWA management. This analysis indicated that the merger is expected to be accretive to combined company's estimated earnings per share in 2017, after excluding non-recurring transaction-related expenses. The analysis also indicated that the merger is expected to be dilutive to tangible book value per share for pro forma company and that the pro forma company would maintain capital ratios in excess of those required for pro forma company to be considered well-capitalized under existing regulations. For all of the above analyses, the actual results achieved by Thurston and CBWA prior to and following the merger will vary from the projected results, and the variations may be material.

Davidson prepared its analyses for purposes of providing its opinion to Thurston's board of directors as to the fairness, from a financial point of view, of the consideration to be paid to the holders of the Thurston common stock in the proposed merger-of-equals and to assist Thurston's board of directors in analyzing the proposed merger-of-equals. The analyses do not purport to be appraisals or necessarily reflect the prices at which businesses or securities actually may be sold. Analyses based upon forecasts of future results are not necessarily indicative of actual future results, which may be significantly more or less favorable than those suggested by these analyses. Because these analyses are inherently subject to uncertainty, being based upon numerous factors or events beyond the control of the parties and their respective advisors, none of Thurston, CBWA or Davidson or any other person assumes responsibility if future results are materially different from those forecasted.

Davidson's opinion was one of many factors considered by the Thurston's board of directors in its evaluation of the merger and should not be viewed as determinative of the views of the board of directors of Thurston or management with respect to the merger or the merger consideration.

Davidson and its affiliates, as part of their investment banking business, are continually engaged in performing financial analyses with respect to businesses and their securities in connection with mergers and acquisitions, negotiated underwritings, competitive biddings, secondary distributions of listed and unlisted securities, private placements and other transactions. Davidson acted as financial advisor to Thurston in connection with, and participated in certain of the negotiations leading to the merger. Davidson is a full service securities firm engaged, either directly or through its affiliates, in securities trading, investment management, financial planning and benefits counseling, financing and brokerage activities for both companies and individuals. In the ordinary course of these activities, Davidson and its affiliates may

provide such services to Thurston, CBWA and their respective affiliates, may actively trade the debt and equity securities (or related derivative securities) of Thurston and CBWA for their own account and for the accounts of their customers and may at any time hold long and short positions of such securities. Thurston selected Davidson as its financial advisor because it is a recognized investment banking firm that has substantial experience in transactions similar to the merger. Pursuant to a letter agreement dated March 30, 2016, Thurston engaged Davidson as its financial advisor in connection with the contemplated transaction. Pursuant to the terms of the engagement letter, Thurston agreed to pay Davidson a non-refundable cash retainer of \$25,000 and a cash fee of \$75,000 concurrently with the rendering of its opinion. Thurston will pay to Davidson at the time of closing of the merger a contingent cash fee equal to \$150,000 and an optional fee of \$25,000, to be paid at the sole discretion of the Thurston board of directors. Thurston has also agreed to reimburse Davidson for all reasonable out-of-pocket expenses, including fees of counsel, and to indemnify Davidson and certain related persons against specified liabilities, including liabilities under the federal securities laws, relating to or arising out of its engagement.

During the two years preceding the date of the opinion, Davidson had not received any compensation from Thurston. Additionally, Davidson may provide investment banking services to the combined company in the future and may receive future compensation.

Opinion of Commencement's Financial Advisor

On July 7, 2016, PTCP rendered to Commencement's board of directors its written opinion with respect to the fairness, from a financial point of view, to the holders of Commencement common stock, of the Merger Consideration pursuant to the Agreement.

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

In issuing its opinion, among other things, PTCP:

- (i) reviewed a draft, dated July 5, 2016, of the Agreement;
- (ii) reviewed certain publicly available business and financial information relating to Commencement and Thurston;
- (iii) reviewed certain other business, financial and operating information relating to Commencement and Thurston provided to PTCP by the management of Commencement and the management of Thurston, including financial forecasts for Commencement for the 2016 to 2020 fiscal years ending December 31, and

financial forecasts for Thurston for the 2016 to 2020 fiscal years ending December 31;

- (iv) met with, either by phone or in person, certain members of the management of Commencement and Thurston to discuss the business and prospects of Commencement and Thurston and the proposed Merger;
- (v) reviewed and compared certain financial metrics of Commencement with certain financial metrics of Thurston that PTCP deemed relevant;
- (vi) reviewed certain financial data of Commencement and Thurston, and compared that data with similar data for companies with publicly traded equity securities that PTCP deemed relevant; and
- (vii) considered such other information, financial studies, analyses and investigations and financial, economic and market criteria that PTCP deemed relevant.

In connection with its review, PTCP has not independently verified any of the foregoing information and PTCP has assumed and relied upon such information being complete and accurate in all material respects. With respect to the financial forecasts for Commencement and Thurston that PTCP used in its analyses, the management of Commencement has advised PTCP, and it has assumed, that such forecasts have been reasonably prepared on bases reflecting the best currently available estimates and judgments of the managements of Commencement and Thurston as to the future financial performance of Commencement and Thurston, respectively, and PTCP expresses no opinion with respect to such estimates or the assumptions on which they are based. PTCP has relied upon and assumed, without independent verification, that there has been no change in the business, assets, liabilities, financial condition, results of operations, cash flows or prospects of Commencement and Thurston since the respective dates of the most recent financial statements and other information, financial or otherwise, provided to PTCP that would be material to its analyses or this Opinion, and that there is no information or any facts that would make any of the information reviewed by PTCP incomplete or misleading. PTCP has also assumed, with Commencement's consent, that, in the course of obtaining any regulatory or third party consents, approvals or agreements in connection with the Merger, no delay, limitation, restriction or condition will be imposed that would have an adverse effect on Commencement, Thurston or the contemplated benefits of the Merger and that the Merger will be consummated in accordance with the terms of the Agreement without waiver, modification or amendment of any term, condition or provision thereof that would be material to PTCP's analyses or this Opinion. PTCP has assumed, with Commencement's consent, that the Agreement, when executed by the parties thereto, conformed to the draft reviewed by PTCP in all respects material to its analyses.

PTCP's opinion only addresses the fairness, from a financial point of view, of the Merger Consideration to the holders of Commencement Common Stock in the manner set forth in the full text of its opinion, which is included as *Appendix D*, and the Opinion does not address any other aspect or implication of the Merger or any agreement, arrangement or understanding entered into in connection with the Merger or otherwise, including, without limitation, the amount or nature of, or any other aspect relating to, any compensation to any officers, trustees, directors or employees of any party to the Merger, or class of such persons, relative to the Merger Consideration or otherwise.

The issuance of PTCP's opinion was approved by an authorized internal committee of PTCP.

PTCP's opinion was necessarily based upon information made available to it as of the date the opinion was delivered of July 7, 2016, and financial, economic, market and other conditions as they existed

and could be evaluated on the date the Opinion was delivered. PTCP has no obligation to update, revise, reaffirm or withdraw its Opinion, or otherwise comment on or consider events occurring after the date the Opinion was delivered. PTCP's opinion does not address the relative merits of the Merger as compared to alternative transactions or strategies that might be available to Commencement, nor does it address the underlying business decision of Commencement or the Board to approve, recommend or proceed with the Merger. Furthermore, no opinion, counsel or interpretation is intended in matters that require legal, regulatory, accounting, insurance, tax or other similar professional advice. It is assumed that such opinions, counsel or interpretations have been or will be obtained from the appropriate professional sources. Furthermore, PTCP has relied on, with Commencement's consent, advice of the outside counsel and the independent accountants of Commencement, and on the assumptions of the management of Commencement, as to all legal, regulatory, accounting, insurance and tax matters with respect to Commencement, Thurston, and the Merger.

In preparing its opinion to Commencement's board, PTCP performed a variety of analyses, including those described below. The summary of PTCP's analyses is not a complete description of the analyses underlying PTCP's opinion. The preparation of a fairness opinion is a complex process involving various quantitative and qualitative judgments and determinations with respect to the financial, comparative and other analytic methods employed and the adaptation and application of those methods to the unique facts and circumstances presented. As a consequence, neither PTCP's opinion nor the analyses underlying its opinion are readily susceptible to partial analysis or summary description. PTCP arrived at its opinion based on the results of all analyses undertaken by it and assessed as a whole and did not draw, in isolation, conclusions from or with regard to any individual analysis, analytic method or factor. Accordingly, PTCP believes that its analyses must be considered as a whole and that selecting portions of its analyses, analytic methods and factors, without considering all analyses and factors or the narrative description of the analyses, could create a misleading or incomplete view of the processes underlying its analyses and opinion.

In performing its analyses, PTCP considered business, economic, industry and market conditions, financial and otherwise, and other matters as they existed on, and could be evaluated as of, the date of its opinion. While the results of each analysis were taken into account in reaching its overall conclusion with respect to fairness, PTCP did not make separate or quantifiable judgments regarding individual analyses. The implied value reference ranges indicated by PTCP's analyses are illustrative and not necessarily indicative of actual values nor predictive of future results or values, which may be significantly more or less favorable than those suggested by the analyses. In addition, any analyses relating to the value of assets, businesses or securities do not purport to be appraisals or to reflect the prices at which businesses or securities actually may be sold, which may depend on a variety of factors, many of which are beyond Commencement's control, Thurston's control and the control of PTCP. Much of the information used in, and accordingly the results of, PTCP's analyses are inherently subject to substantial uncertainty.

PTCP's opinion and analyses were provided to Commencement's board of directors in connection with its consideration of the proposed merger and were among many factors considered by Commencement's board of directors in evaluating the proposed Merger. Neither PTCP's opinion nor its analyses were determinative of the Merger Consideration or of the views of Commencement's board of directors with respect to the proposed Merger.

The following is a summary of the material financial analyses performed in connection with PTCP's opinion rendered to Commencement's board of directors on July 7, 2016. No company used in the analyses described below is identical or directly comparable to Commencement, Thurston or the proposed transaction. The analyses summarized below include information presented in tabular format. The tables alone do not constitute a complete description of the analyses. Considering the data in the tables below without considering the full narrative description of the analyses, as well as the methodologies underlying,

and the assumptions, qualifications and limitations affecting, each analysis, could create a misleading or incomplete view of PTCP's analyses.

Relative Contribution Analysis

PTCP considered certain operating and financial metrics of Commencement and Thurston and reviewed the relative contribution of Commencement and Thurston to certain operating and financial metrics of the combined company. PTCP used actual results as of and for the twelve months ended March 31, 2016, and projected net income results for Commencement for 2016 to 2018 based on the financial forecasts prepared by Commencement management and projected net income results for Thurston for 2016 to 2018 based on financial forecasts prepared by Thurston management and approved by Commencement management. The relative contribution analysis did not give effect to the impact of any synergies resulting from the proposed merger.

The results of the relative contribution analysis are summarized below.

	Contribution		Implied Exchange Ratio
	Commencement	Thurston	(Thurston / Commencement)
Total Assets	57.6%	42.4%	1.2105x
Gross Loans Held for Investment	66.6%	33.4%	0.8225x
Total Deposits	56.8%	43.2%	1.2472x
Tangible Common Equity	64.6%	35.4%	0.8990x
LTM Net Income	66.7%	33.3%	0.8193x
2016E Net Income	59.3%	40.7%	1.1275x
2017E Net Income	61.7%	38.3%	1.0173x
2018E Net Income	65.1%	34.9%	0.8785x
Proposed Exchange Ratio			0.9024x

Selected Public Companies Analysis

PTCP considered certain financial information for Commencement and Thurston and compared it with selected companies whose equity is publicly traded that PTCP deemed relevant. The selected companies included banks headquartered in Washington, Idaho, or Oregon with total assets between \$100 million and \$500 million, LTM ROAA greater than 0.00%, NPAs/assets less than 3.00%, and an average daily trading volume of at least 25 shares per day over the last 90 days. The selected companies were selected because they were deemed similar to each of Commencement and Thurston in one or more respects. Except as described above, no specific numeric or other similar criteria were used to select the selected companies, and all criteria were evaluated in their entirety without application of definitive qualifications or limitations to individual criteria. PTCP identified a sufficient number of companies for purposes of its analysis but may not have included all publicly traded companies that might be deemed comparable to Commencement and Thurston. The 12 selected companies used in this analysis included:

- Puget Sound Bancorp, Inc. – Bellevue, WA
- Premier Commercial Bancorp – Hillsboro, OR
- BEO Bancorp – Heppner, OR
- U & I Financial Corp. – Lynnwood, WA
- People's Bank of Commerce – Medford, OR
- Summit Bank – Eugene, OR

- Oregon Pacific Bancorp – Florence, OR
- Oregon Bancorp, Inc. – Salem, OR
- Lewis & Clark Bank – Oregon City, OR
- CenterPointe Community Bank – Hood River, OR
- First Sound Bank – Seattle, WA
- Idaho First Bank – McCall, ID

PTCP reviewed financial data for the selected companies, including trading value to tangible book value and trading value to last twelve months (LTM) earnings. Furthermore, PTCP applied the average and median multiples of the selected companies to corresponding financial data for each of Commencement and Thurston as of March 31, 2016. PTCP reviewed the ranges of implied per share prices and calculated a range of implied exchange ratios by dividing the higher implied per share price of Thurston by the lower implied per share price of Commencement to determine the high implied exchange ratio, and by dividing the lower implied per share price of Thurston by the higher implied per share price of Commencement to calculate the low implied exchange ratio. The results of the selected public companies analysis are summarized below.

	Implied Per Share Value Indicated by Financial Data				Implied Exchange Ratio Thurston / Commencement		
	Commencement		Thurston		Thurston / Commencement		
	Avg.	Median	Avg.	Median	Low/High	High/Low	
Price/Tangible Book Value	\$11.26	\$10.17	\$10.12	\$9.14	0.8120x	-	0.9950x
Price/LTM Core EPS	8.89	8.09	7.38	6.72	0.7561x	-	0.9116x

Proposed Exchange Ratio

0.9024x

Dividend Discount Analysis

PTCP analyzed the discounted present value of each of Commencement's and Thurston's projected free cash flows to equity for the years ending December 31, 2016 through December 31, 2020 on a standalone basis. PTCP calculated cash flows based on dividendable tangible common equity, which is defined as the tangible common equity in excess of a minimum 10.0% tangible common equity to tangible assets ratio. This analysis was based on the financial forecasts for Commencement prepared by Commencement management and financial forecasts for Thurston prepared by Thurston management and approved for use in this analysis by Commencement management.

PTCP applied price to tangible book value multiples, ranging from 120% to 160%, to each of Commencement's and Thurston's projected December 31, 2020 tangible book value and price to earnings multiples, ranging from 13.0x to 17.0x, to each of Commencement's and Thurston's projected calendar year 2020 net income in order to derive a range of projected terminal values for each bank at December 31, 2020. The projected cash flows and terminal values were discounted using rates ranging from 11.5% to 15.5%, which reflected the cost of equity capital using a discount rate build-up method based on the sum of the risk-free rate, industry equity risk premium, size premium, and specific company risk factors. The resulting range of present values was divided by the number of common shares outstanding in order to arrive at a range of present values per share of common stock for each of Commencement and Thurston. PTCP reviewed the range of per share prices derived in the dividend discount analysis and calculated a range of implied exchange ratios by dividing the highest implied per share price of Thurston by the lowest implied per share price of Commencement to determine the high implied exchange ratio, and by dividing the lowest implied per share price of Thurston by the highest implied per share price of Commencement to

calculate the low implied exchange ratio. The results of the dividend discount analysis are summarized below.

	Implied Per Share Value				Implied Exchange Ratio		
	Commencement		Thurston		Thurston / Commencement		
	Low	High	Low	High	Low/High	-	High/Low
Price/Tangible Book Value	\$10.48	\$15.66	\$9.25	\$13.92	0.5907x	-	1.3282x
Price/LTM Core EPS	9.58	14.52	8.21	12.53	0.5654x	-	1.3079x
Proposed Exchange Ratio							0.9024x

Pro Forma Results and Capital Ratios

PTCP analyzed certain potential pro forma effects of the Merger, assuming the following as provided by Commencement: (i) the Merger closes on September 30, 2016; (ii) holders of Thurston common stock receive 0.9024 shares of Commencement stock for each share of Thurston common stock; (iii) the combined company would be able to achieve cost savings of 24.5% of Thurston's projected standalone operating expense and such savings would be 50% realized in the fourth quarter of 2016 and 100% in 2017 and thereafter; (iv) pre-tax transaction costs and expenses would total approximately \$1.4 million, with 100% of such expenses recognized by the end of year 2016; (v) core deposit intangible of approximately \$1.3 million would be created in the transaction; and (vi) purchase accounting adjustments, including a mark-to-market adjustment on Thurston's loan portfolio. Commencement's standalone performance was based on the financial forecasts provided by Commencement management. The analyses indicated that for the year ending December 31, 2017, the Merger would be accretive to Commencement's projected earnings per share and that by or before March 31, 2019, the Merger would be accretive to Commencement's tangible book value per share. The analyses also indicated that as of March 31, 2016, the Merger would maintain Commencement's regulatory capital ratios in excess of the regulatory guidelines for "well capitalized" status. The actual results achieved by the combined company, however, may vary from projected results and the variations may be material.

Other Matters

Commencement engaged PTCP as its financial advisor in connection with the potential merger based on PTCP's experience, reputation, and familiarity with Commencement's business. PTCP has an investment banking division and is regularly engaged in the valuation of businesses and securities in connection with mergers and acquisitions. PTCP will receive a customary investment banking fee for its services, a portion of which became due upon delivery of this opinion with the remainder contingent upon the consummation of the Merger. In addition, Commencement has agreed to indemnify PTCP and certain related parties for certain liabilities arising out of or related to the engagement and to reimburse PTCP for certain expenses incurred in connection with its engagement.

PTCP is a broker-dealer engaged in securities trading and brokerage activities as well as providing investment banking and other financial services. In the ordinary course of business, PTCP and its affiliates may acquire, hold or sell, for its and its affiliates own accounts and the accounts of customers, equity, debt and other securities and financial instruments (including bank loans and other obligations) of Commencement, Thurston and certain of their affiliates as well as provide investment banking and other financial services to such companies and entities.

Surrender of Thurston Stock Certificates; Unclaimed Merger Consideration

After the completion of the Merger, the exchange agent will mail to Thurston shareholders a letter of transmittal, together with instructions for the exchange of their Thurston Stock certificates for the Merger Consideration. Until Thurston shareholders surrender their Thurston Stock certificates for exchange after completion of the Merger, Thurston shareholders will not be paid dividends or other distributions declared after the Merger with respect to any Commencement Stock into which their Thurston shares have been converted. When Thurston shareholders surrender their Thurston Stock certificates, Commencement will pay any unpaid dividends or other distributions, without interest. After the completion of the Merger, there will be no further transfers of Thurston Stock by Thurston. Thurston Stock certificates presented for transfer after the completion of the Merger will be canceled and exchanged for the Merger Consideration.

If their Thurston Stock certificates have been either lost, stolen or destroyed, Thurston shareholders will have to prove their ownership of these certificates and that they were lost, stolen or destroyed before they receive any consideration for their shares. The letter of transmittal will include instructions on how to provide evidence of ownership.

Any portion of the Merger Consideration that remains unclaimed by the shareholders of Thurston for six months after the Effective Time (as well as any proceeds from any investment thereof) shall be delivered by the exchange agent to Commencement. Thereafter, any shareholders of Thurston who have not theretofore exchanged their shares of Thurston Stock for the Merger Consideration shall thereafter look only to Commencement for the consideration deliverable in respect of each share of Thurston Stock such shareholder holds as determined pursuant to the Merger Agreement without any interest thereon. If outstanding certificates for shares of Thurston Stock are not surrendered or the payment for them is not claimed prior to the date on which such shares of Commencement Stock or cash would otherwise escheat to any governmental unit or agency, the unclaimed items shall, to the extent permitted by abandoned property and any other applicable law, become the property of Commencement (and to the extent not in its possession shall be delivered to it), free and clear of all claims or interest of any person previously entitled to such property.

Completion of the Merger

The Merger will become effective at the date and time specified in the certificate of merger to be issued by the Department of Financial Institutions for the State of Washington. If the requisite number of shareholders of Thurston approve the Merger Agreement at the Thurston Meeting, and if the requisite number of shareholders of Commencement approve the Merger Agreement at the Commencement Meeting and if all required regulatory approvals are obtained and the other conditions to the parties' obligations to effect the Merger are met or waived by the party entitled to do so, we anticipate that the Merger will be completed in October, 2016.

Neither Thurston nor Commencement can assure you that it can obtain the required shareholder approvals, the regulatory approvals or that the other conditions to completion of the Merger can or will be satisfied.

Conduct of Business Pending Effective Time

Between the date of the Merger Agreement and the Effective Time, unless previously disclosed or otherwise required by the DFI or the FRB, and unless Commencement otherwise consents in writing, Thurston has agreed to:

- (i) conduct its business in the ordinary course consistent with past practice, (ii) use commercially reasonable best efforts to maintain and preserve intact its business organization and advantageous business relationships, and (iii) take no action that is intended to or would reasonably be expected to adversely affect or materially delay the ability of Thurston or Commencement to obtain any necessary Regulatory Approvals or to consummate the transactions contemplated hereby.

Between the date of the Merger Agreement and the Effective Time, unless previously disclosed or otherwise required by the DFI or the FRB, and unless Commencement otherwise consents in writing, Thurston has agreed not to:

- issue, sell or otherwise permit to become outstanding, or authorize the creation of, any additional shares of its capital stock;
- issue any other capital securities, including trust preferred or other similar securities, Voting Debt, or other securities, debentures or subordinated notes;
- make, declare, pay or set aside for payment any dividend or distribution on its capital stock or other ownership interests; or directly or indirectly adjust, split, combine, redeem, reclassify, purchase or otherwise acquire, any shares of its capital stock, other ownership interests, or Rights;
- enter into, modify, amend, renew or terminate any employment, consulting, severance, change in control, or similar agreement or arrangement with any director, officer or employee of Thurston, or (i) grant any salary or wage increase or increase any employee benefit (including incentive or bonus payments) other than (A) at will agreements, (B) normal individual increases in salary to rank and file employees, in each case in the ordinary course of business consistent with past practice, (C) severance in accordance with past practice and (D) changes that are required by applicable law; (ii) hire any new officers; (iii) promote any employee to a rank of vice president or a more senior position; or (iv) pay aggregate expenses of more than Five Thousand Dollars (\$5,000) in the aggregate for employees and directors to attend conventions or similar meetings after the date hereof;
- enter into, establish, adopt, amend or terminate, or make any contributions to (except (i) as may be required by applicable law, or (ii) to satisfy contractual obligations and to maintain benefit programs existing as of the date hereof and set forth on Thurston's Disclosure Schedule), any pension, retirement, stock option, stock purchase, savings, profit sharing, deferred compensation, consulting, bonus, group insurance or other employee benefit, incentive or welfare contract, plan or arrangement, or any trust agreement (or similar arrangement) related thereto, in respect of any current or former director, officer or employee of Thurston or take any action to accelerate the vesting or exercisability of stock options, restricted stock or other compensation or benefits payable thereunder;
- sell, transfer, mortgage or encumber any of its assets or properties except in the ordinary course of business consistent with past practice, and in the case of a sale or transfer, at fair value, or sell or transfer any portion of its deposit liabilities;
- enter into, modify, amend or renew any data processing contract, service provider agreement, or any lease, license or maintenance agreement relating to real or personal property or Intellectual Property; or permit to lapse its rights in any material Intellectual Property;

- acquire (other than by way of foreclosures or acquisitions of control in a bona fide fiduciary capacity or in satisfaction of debts previously contracted in good faith, in each case in the ordinary course of business consistent with past practice) all or any portion of, the assets, business or properties of any Person;
- sell or acquire any loans (excluding originations) or loan participations, except in the ordinary course of business consistent with past practice (but in the case of a sale, after giving Commencement a first right of refusal to acquire such loan or participation), or sell or acquire any servicing rights;
- amend its organizational documents (or similar governing documents);
- implement or adopt any material change in its accounting principles, practices or methods, other than as may be required by GAAP or any Governmental Entity;
- enter into or terminate any Material Contract (as defined in the Merger Agreement) or amend or modify in any material respect or renew any existing Material Contract (as defined in the Merger Agreement);
- except in the ordinary course of business consistent with past practice and involving an amount not in excess of Twenty-Five Thousand Dollars (\$25,000) (exclusive of any amounts paid directly or reimbursed to Thurston under any insurance policy maintained by Thurston, settle any claim, action or proceeding against it. Notwithstanding the foregoing, no settlement shall be made if it involves a precedent for other similar claims, which in the aggregate, could reasonably be determined to be material to Thurston, taken as a whole;
- foreclose upon or otherwise take title to or possession or control of any real property without first obtaining a phase one environmental report thereon; provided, however, that Thurston shall not be required to obtain such a report with respect to one-to four-family, non-agricultural residential property of five acres or less to be foreclosed upon unless it has reason to believe that such property contains Hazardous Substances or might be in violation of or require remediation under Environmental Laws;
- (i) voluntarily make any material changes in or to its deposit mix; (ii) increase or decrease the rate of interest paid on time deposits or on certificates of deposit, except in a manner and pursuant to policies consistent with past practice and competitive factors in the marketplace; (iii) incur any liability or obligation relating to retail banking and branch merchandising, marketing and advertising activities and initiatives except in the ordinary course of business consistent with past practice; (iv) open any new branch or deposit taking facility; or (v) close or relocate any existing branch or other facility;
- (i) purchase any equity securities or purchase any debt securities, other than securities (A) rated “AA” or higher by either Standard and Poor’s Ratings Services or Moody’s Investor Service, (B) with a weighted average life of not more than three (3) years and (C) otherwise in the ordinary course of business consistent with its current investment policy; or (ii) enter into or acquire any derivatives contract or structured note; enter into any new, or modify, amend or extend the terms of any existing contracts relating to the purchase or sale of financial or other futures, or any put or call option relating to cash, securities or commodities or any interest rate swap agreements or other agreements relating to the hedging of interest rate risk;

- purchase any fixed assets (by installment purchase, capital lease, synthetic lease or otherwise) where the amount paid or committed thereof is in excess of Five Thousand Dollars (\$5,000) individually or Fifteen Thousand Dollars (\$15,000) in the aggregate, except for emergency repairs or replacements;
- (i) make any material changes in its policies concerning loan underwriting or which classes of Persons may approve loans or fail to comply with such policies as Previously Disclosed; or (ii) make any loans or extensions of credit except in the ordinary course of business consistent with past practice, provided any unsecured loan or extension of credit in excess of Two Hundred Thousand Dollars (\$200,000), any secured loan or extension of credit in excess of Seven Hundred Fifty Thousand Dollars (\$750,000) or any new loan to a new borrower in excess of Five Hundred Thousand Dollars (\$500,000), shall require the prior written approval of the President/Chief Executive Officer or the Chief Credit Officer of Commencement or their designee, which approval or rejection shall be given in writing within two (2) business days after the loan package is delivered to such individual;
- make any loan to or enter into any transaction with any of Thurston's board of directors or executive officers or any Affiliate thereof except for any renewals of any loan previously made in the ordinary course of business consistent with past practice;
- engage in any joint venture, partnership or similar activity; make any new or additional investment in any existing joint venture or partnership; or engage in any new real estate development or construction activity;
- take any action that is intended or is reasonably likely to result in (i) the Merger failing to qualify as a "reorganization" under Section 368(a) of the Code; (ii) any of Commencement's representations and warranties set forth in the Merger Agreement being or becoming untrue in any material respect; (iii) any of the conditions set forth in Article VIII not being satisfied except as expressly permitted by the Merger Agreement; or (iv) a violation of any provision of the Merger Agreement;
- except as required by applicable law or regulation, (i) implement or adopt any material change in its interest rate and other risk management policies, procedures or practices; (ii) fail to follow its existing policies or practices with respect to managing its exposure to interest rate and other risk; or (iii) fail to use commercially reasonable means to avoid any material increase in its aggregate exposure to interest rate risk;
- incur any indebtedness for borrowed money, incur, assume or become subject to, whether directly or by way of any guarantee or otherwise, any obligations or liabilities (absolute, accrued, contingent or otherwise) of any other Person, other than the issuance of letters of credit in the ordinary course of business;
- make any charitable or similar contributions after the date of the Merger Agreement;
- develop, market or implement any new line of business;
- make, change or revoke any tax election, file any amended Tax Return, enter into any Tax closing agreement, or settle or agree to compromise any liability with respect to disputed Taxes;

- take any action that is likely to materially impair Thurston’s ability to perform any of its obligations under the Merger Agreement; or
- agree or commit to do any of the foregoing.

Between the date of the Merger Agreement and the Effective Time, unless previously disclosed or otherwise required by the DFI or the FRB, and unless Thurston otherwise consents in writing, Commencement has agreed to:

- (a) conduct its business in the ordinary course consistent with past practice, (b) use commercially reasonable best efforts to maintain and preserve intact its business organization and advantageous business relationships, and (c) take no action that is intended to or would reasonably be expected to adversely affect or materially delay the ability of Thurston or Commencement to obtain any necessary Regulatory Approvals or to consummate the transactions contemplated hereby;

Between the date of the Merger Agreement and the Effective Time, unless previously disclosed or otherwise required by the DFI or the FRB, and unless Thurston otherwise consents in writing, Commencement has agreed to not:

- issue, sell or otherwise permit to become outstanding, or authorize the creation of, any additional shares of its capital stock;
- issue any other capital securities, including trust preferred or other similar securities, Voting Debt, or other securities, debentures or subordinated notes;
- (i) make, declare, pay or set aside for payment any dividend or distribution on its capital stock or other ownership interests; or (ii) directly or indirectly adjust, split, combine, redeem, reclassify, purchase or otherwise acquire, any shares of its capital stock, other ownership interests, or Rights;
- enter into, establish, adopt, amend or terminate, or make any contributions to (except (i) as may be required by applicable law, or (ii) to satisfy contractual obligations and to maintain benefit programs existing as of the date hereof and set forth on Commencement’s Disclosure Schedule), any pension, retirement, stock option, stock purchase, savings, profit sharing, deferred compensation, consulting, bonus, group insurance or other employee benefit, incentive or welfare contract, plan or arrangement, or any trust agreement (or similar arrangement) related thereto, in respect of any current or former director, officer or employee of Commencement or take any action to accelerate the vesting or exercisability of stock options, restricted stock or other compensation or benefits payable thereunder;
- sell, transfer, mortgage or encumber any of its assets or properties except in the ordinary course of business consistent with past practice, and in the case of a sale or transfer, at fair value; or sell or transfer any portion of its deposit liabilities;
- implement or adopt any material change in its accounting principles, practices or methods, other than as may be required by GAAP or any Governmental Entity;
- take any action that is intended or is reasonably likely to result in (i) the Merger failing to qualify as a “reorganization” under Section 368(a) of the Code; (ii) any of Thurston’s representations and warranties set forth in the Merger Agreement being or becoming untrue

in any material respect; (iii) any of the conditions set forth in Article VII not being satisfied except as expressly permitted by the Merger Agreement; or (iv) a violation of any provision of the Merger Agreement;

- except as required by applicable law or regulation, (i) implement or adopt any material change in its interest rate and other risk management policies, procedures or practices; (ii) fail to follow its existing policies or practices with respect to managing its exposure to interest rate and other risk; or (iii) fail to use commercially reasonable means to avoid any material increase in its aggregate exposure to interest rate risk;
- amend the Commencement Charter or Commencement Bylaws or similar governing documents in a manner that would adversely affect Thurston;
- take any action that is likely to materially impair Commencement’s ability to perform any of its obligations under the Merger Agreement;
- (i) voluntarily make any material changes in or to its deposit mix; (ii) increase or decrease the rate of interest paid on time deposits or on certificates of deposit, except in a manner and pursuant to policies consistent with past practice and competitive factors in the marketplace; (iii) incur any liability or obligation relating to retail banking and branch merchandising, marketing and advertising activities and initiatives except in the ordinary course of business consistent with past practice; (iv) open any new branch or deposit taking facility; or (v) close or relocate any existing branch or other facility;
- (i) purchase any equity securities or purchase any debt securities, other than securities (A) rated “AA” or higher by either Standard and Poor’s Ratings Services or Moody’s Investor Service, (B) with a weighted average life of not more than three (3) years and (C) otherwise in the ordinary course of business consistent with its current investment policy; or (ii) enter into or acquire any derivatives contract or structured note; enter into any new, or modify, amend or extend the terms of any existing contracts relating to the purchase or sale of financial or other futures, or any put or call option relating to cash, securities or commodities or any interest rate swap agreements or other agreements relating to the hedging of interest rate risk;
- make any loan to or enter into any transaction with any of Commencement’s board of directors or executive officers or any Affiliate thereof except for any loan made in the ordinary course of business consistent with past practice;
- engage in any joint venture, partnership or similar activity, make any new or additional investment in any existing joint venture or partnership, or engage in any new real estate development or construction activity;
- agree or commit to do any of the foregoing.

No Negotiation with Others

Thurston has agreed that it shall, and shall direct and use its commercially reasonable efforts to cause its affiliates, directors, officers, employees, agents and representatives (including, without limitation, any investment banker, financial advisor, attorney, accountant or other representative retained by it) (all of the foregoing, collectively, “Representatives”) to, immediately cease any discussions or negotiations with any other parties that may be ongoing with respect to the possibility or consideration of any Acquisition

Proposal (as defined below), and will use its commercially reasonable efforts to enforce any confidentiality or similar agreement relating to any Acquisition Proposal, including by requesting the other party to promptly return or destroy any confidential information previously furnished by or on behalf of Thurston thereunder and by specifically enforcing the terms thereof in a court of competent jurisdiction. From the date of the Merger Agreement through the Effective Time, Thurston shall not, and shall cause its directors, officers or employees or any Representative retained by it not to, directly or indirectly through another Person, (i) solicit, initiate or encourage (including by way of furnishing information or assistance), or take any other action designed to facilitate or that is likely to result in, any inquiries or the making of any proposal or offer that constitutes, or is reasonably likely to lead to, any Acquisition Proposal, (ii) provide any confidential information or data to any Person relating to any Acquisition Proposal, (iii) participate in any discussions or negotiations regarding any Acquisition Proposal, (iv) waive, terminate, modify or fail to enforce any provision of any contractual “standstill” or similar obligations of any Person other than Commencement or its Affiliates, (v) approve or recommend, propose to approve or recommend, or execute or enter into, any letter of intent, agreement in principle, merger agreement, asset purchase agreement or share exchange agreement, option agreement or other similar agreement related to any Acquisition Proposal or propose to do any of the foregoing, or (vi) make or authorize any statement, recommendation or solicitation in support of any Acquisition Proposal; provided, however, that prior to the date of the Thurston Meeting, if the Thurston Board determines in good faith, after consulting with its outside legal and financial advisors, that the failure to do so would, more likely than not, breach, or would reasonably be expected to result in a breach of, the Thurston Board’s fiduciary duties under applicable law, Thurston and its Representatives may, in response to a bona fide, written Acquisition Proposal not solicited in violation of this Section 7.7(a) that the Thurston Board determines in good faith constitutes a Superior Proposal (as defined below), subject to providing to Commencement 48 hours prior written notice of its decision to take such action and identifying the Person making the proposal and all the material terms and conditions of such proposal and compliance with Section 7.7(b), (1) furnish information with respect to itself to any Person making such a Superior Proposal pursuant to a customary confidentiality agreement (as determined by Thurston after consultation with its outside counsel) on terms no more favorable to such Person than the terms contained in the Confidentiality Agreement are to Commencement, and (2) participate in discussions or negotiations regarding such a Superior Proposal. The term “Acquisition Proposal” means any inquiry, proposal or offer, filing of any regulatory application or notice (whether in draft or final form) or disclosure of an intention to do any of the foregoing from any Person relating to any (w) direct or indirect acquisition or purchase of a business that constitutes 10% or more of the total revenues, net income, assets or deposits of Thurston, (x) direct or indirect acquisition or purchase of any class of Equity Securities representing 10% or more of the voting power of Thurston, (y) tender offer or exchange offer that if consummated would result in any person beneficially owning 10% or more of any class of Equity Securities of Thurston or (z) merger, consolidation, business combination, recapitalization, liquidation, dissolution or similar transaction involving Thurston, other than the Transaction contemplated by the Merger Agreement. For purposes of the Merger Agreement, the term “Superior Proposal” means any bona fide written proposal made by a third party to acquire, directly or indirectly, including pursuant to a tender offer, asset sale, exchange offer, merger, consolidation, business combination, recapitalization, liquidation, dissolution or similar transaction, for consideration consisting of cash and/or securities, more than 50% of the combined voting power of the shares of Thurston Common Stock then outstanding or all or substantially all of Thurston’s consolidated assets, which the Thurston Board determines in good faith, after taking into account all legal, financial, regulatory and other aspects of the proposal and the person making the proposal (including any break-up fees, expense reimbursement provisions and conditions to consummation), and after taking into account the advice of Thurston’s financial advisor (which shall be a nationally recognized investment banking firm) and outside counsel, (i) is more favorable from a financial point of view to its shareholders than the Merger, (ii) is reasonably likely to be consummated on the terms set forth in such proposal, and (iii) for which financing, to the extent required, is then committed or which, in the good faith judgment of the Thurston Board, is reasonably likely to be obtained by such third party.

Conditions to Consummation of the Merger

Each party's obligation to close the Merger is subject to the following conditions, any or all of which may be waived in writing by the parties prior to the Closing of the Merger:

- All regulatory approvals required to consummate the Merger shall have been obtained and shall remain in full force and effect and all statutory waiting periods in respect thereof shall have expired and no such final regulatory approvals shall contain any materially burdensome conditions, restrictions or requirements which the Commencement Board reasonably determines in good faith would, individually or in the aggregate, impose conditions, restrictions or requirements on Commencement following completion of the Merger to such a degree and to such an extent that Commencement would not have entered into the Merger Agreement had such conditions, restrictions or requirements been known at the date hereof.
- No Governmental Authority of competent jurisdiction shall have enacted, issued, promulgated, enforced or entered any statute, rule, regulation, judgment, decree, injunction or other order (whether temporary, preliminary or permanent) which is in effect and prohibits consummation of the Merger.
- The Merger Agreement shall have been approved by the requisite vote of holders of Commencement Common Stock and Thurston Common Stock.
- Each of Commencement and Thurston shall have received the written opinion of Keller Rohrback L.L.P., in form and substance reasonably satisfactory to both Thurston and Commencement, dated as of the Effective Date, substantially to the effect that, on the basis of the facts, representations and assumptions set forth in such opinion which are consistent with the state of facts existing at the Effective Time, the Merger will be treated for federal income tax purposes as a reorganization within the meaning of Section 368(a) of the Code. In rendering any such opinion, such counsel may require and rely upon representations and covenants, including those contained in certificates of officers of Commencement, Thurston and others, reasonably satisfactory in form and substance to such counsel.
- The Commencement Common Stock to be issued to the Thurston shareholders as part of the Merger Consideration in the transaction shall have been approved for listing on the OTCQX.

The obligation of Thurston to consummate the Merger is also subject to the fulfillment or written waiver by Thurston prior to the Closing of each of the following conditions:

- The representations and warranties of Commencement set forth in the Merger Agreement shall be true and correct as of the date hereof and as of the Effective Date as though made on and as of the Effective Date (except that representations and warranties that by their terms speak as of the date hereof or some other date shall be true and correct as of such date), and Thurston shall have received a certificate, dated the Effective Date, signed on behalf of Commencement by the Chief Executive Officer and the Chief Financial Officer of Commencement to such effect.
- Commencement shall have performed in all material respects all obligations required to be performed by it under the Merger Agreement at or prior to the Effective Time, and Thurston shall have received a certificate, dated the Effective Date, signed on behalf of

Commencement by the Chief Executive Officer and the Chief Financial Officer of Commencement to such effect.

- Commencement shall have furnished Thurston with such other documents to evidence fulfillment of the conditions set forth in Sections 8.1 and 8.2 as Thurston may reasonably request.
- The Board of Directors of Commencement shall have, immediately prior to the Closing, reduced the number of directors at Commencement to seven (7) directors and elected the Thurston Designated Directors to the Commencement Board of Directors, all effective as of the Closing Date.
- Since the date hereof, no event shall have occurred or circumstance arisen that, individually or in the aggregate, taken together with all other facts, circumstances or event, has had or is reasonably likely to have a Material Adverse Effect with respect to Commencement.
- The Employment Agreement with James H. Haley shall be in full force and effect at the Effective Time.
- As of the Closing Date, Commencement shall have tangible common equity (equal to Commencement's total shareholders' equity minus any intangible assets, in each case calculated in accordance with GAAP and the Commencement Financial Statements, and excluding in such determination any accumulated other comprehensive income (loss) of Commencement (unrealized gain or loss in the Commencement investment portfolio)) shall not be less than Commencement's tangible common equity at June 30, 2016, less \$200,000. Further, for purposes of calculating the tangible common equity herein, any Transaction Expenses incurred by Commencement prior to or as of the Closing Date shall be added back to Commencement's total shareholders' equity on a tax adjusted basis based on Commencement's marginal tax rate. For purposes of the Merger Agreement, "Transaction Expenses" shall mean all expenses, costs and fees to be paid or incurred by Thurston or Commencement, in connection with consummation of the transactions described in the Merger Agreement, including, without limitation, (i) legal, accounting, investment banking, advisory or other professional fees and costs; (ii) costs associated with respect to termination, cancellation or assignment of any Material Contract to which Thurston or Commencement and costs associated with any payments to holders of Thurston Benefit Plan terminations (including, but not limited to, payments by Thurston under the Thurston Stock Appreciation Plan (as hereinafter defined), (iii) Thurston director and officer tail insurance premiums and costs and (iv) in respect of any benefit, severance, change in control payments or retention payments to employees or directors of Thurston as a result of the transactions contemplated in the Merger Agreement.

The obligation of Commencement to consummate the Merger is also subject to the fulfillment or written waiver by Commencement prior to the Closing of each of the following conditions:

- The representations and warranties of Thurston set forth in the Merger Agreement shall be true and correct as of the date hereof and as of the Effective Date as though made on and as of the Effective Date (except that representations and warranties that by their terms speak as of the date hereof or some other date shall be true and correct as of such date), and Commencement shall have received a certificate, dated the Effective Date, signed on behalf of Thurston by the Chief Executive Officer and the Chief Financial Officer of Thurston to such effect.

- Thurston shall have performed in all material respects all obligations required to be performed by it under the Merger Agreement at or prior to the Effective Time, and Commencement shall have received a certificate, dated the Effective Date, signed on behalf of Thurston by the Chief Executive Officer and the Chief Financial Officer of Thurston to such effect.
- Dissenting Shares shall not represent 7% or more of the outstanding shares of Thurston Common Stock.
- The Employment Agreement for James H. Haley shall be in full force and effect at the Effective Time. Prior to the Closing, Thurston shall have expensed the estimated payment to Haley under the terms of his Severance/Change in Control Agreement, and have recorded it as a liability on Thurston's general ledger to be paid Haley within a time period to be determined by the Board of Directors of Thurston which shall be prior to the Closing, but the payment thereof shall not be longer than twelve (12) months from the date of Closing. Any Severance Payment due the Chief Financial Officer of Thurston shall have been paid prior to the Closing.
- Prior to the Closing, all stock appreciation rights granted or awarded pursuant to the Thurston Stock Appreciation Plan (the "Thurston Stock Appreciation Plan"), or otherwise, which are then exercisable shall be cancelled by Thurston in exchange for a cash payment by Thurston equal to the SAR Value (as defined in the Thurston Stock Appreciation Plan). In exchange for the cash payment, Thurston shall cause each holder of a Thurston stock appreciation right to execute a stock appreciation right cancellation and release agreement in form and substance reasonably acceptable to Commencement (each a "Cancellation Agreement"). Thurston shall cause the Thurston Stock Appreciation Right Plan to be terminated as of the Closing Date.
- As of the Closing Date, Thurston shall have tangible common equity (equal to Thurston's total shareholders' equity minus any intangible assets, in each case calculated in accordance with GAAP and the Thurston Financial Statements, and excluding in such determination any accumulated other comprehensive income (loss) of Thurston (unrealized gain or loss in the Thurston investment portfolio)) shall not be less than Thurston's tangible common equity at June 30, 2016, less \$200,000. Further, for purposes of calculating the tangible common equity herein, any Transaction Expenses incurred by Thurston prior to or as of the Closing Date shall be added back to Thurston's total shareholders' equity on a tax adjusted basis based on Thurston's marginal tax rate.
- Since the date hereof, no event shall have occurred or circumstance arisen that, individually or in the aggregate, taken together with all other facts, circumstances or event, has had or is reasonably likely to have a Material Adverse Effect with respect to Thurston.
- Thurston shall have furnished Commencement with such other documents to evidence fulfillment of the conditions set forth in Sections 8.1 and 8.3 as Commencement may reasonably request.
- Thurston shall have terminated all of its 409A plans in accordance with Treasury Regulation Section 1.409A-3(j)(4)(ix)(B) no earlier than thirty days prior to the Closing.

Additional Agreements

In addition to the agreements described above, each party agreed in the Merger Agreement to take certain other actions, including but not limited to:

- each party agreed to use its commercially reasonable efforts in good faith to take, or cause to be taken, all actions, and to do, or cause to be done, all things necessary, proper or desirable, or advisable under applicable laws, so as to permit consummation of the Merger as promptly as practicable and otherwise to enable consummation of the Merger, including the satisfaction of the conditions set forth in the Merger Agreement, and shall cooperate fully with the other party hereto to that end;
- each party agreed to cooperate and use their respective commercially reasonable efforts to prepare all documentation, to effect all filings and to obtain all permits, consents, approvals and authorizations of all third parties and governmental authorities that are necessary to consummate the Merger;
- each party agreed to give the other party access to all of its books, records (including, without limitation, tax returns and work papers of independent auditors), systems, properties, personnel and advisors of the other party and to such other information relating to the other party as the other party may reasonably request and, during such period, it shall furnish promptly to the other party (i) a copy of each report, schedule, offering circular and other document filed or received during such period pursuant to the requirements of federal or state banking, lending, consumer finance or privacy laws and (ii) all other information concerning the business, properties and personnel of the other party may reasonably request;
- each party agreed that it will not, and will cause its respective representatives not to, directly or indirectly, before or after the completion of the Merger or termination of the Merger Agreement, disclose any confidential information for any reason other than as permitted in the Merger Agreement;
- each party agreed that it will not issue or cause the publication of any press release or public announcement with respect to the transactions contemplated by the Merger Agreement without the consent of the other party except as required by applicable law, including in connection with the regulatory approval process;
- Thurston agreed to execute and deliver such instruments and take such actions as Commencement reasonably requests to cause the termination of any of Thurston's employee benefit plans and Commencement agreed that the employees of Thurston and its subsidiaries who continue their employment after the Closing of the Merger will be entitled to participate as newly hired employees in the employee benefit plans and programs maintained for employees of Commencement, such employees will be entitled to credit for prior service with Thurston, to the extent allowed by Commencement's plans and applicable law and subject to the provisions set forth in the Merger Agreement; and
- Commencement agreed, at its expense, to file all notices and applications for all regulatory approvals required to be obtained by Commencement in connection with the Merger Agreement and the transactions contemplated thereby and to provide Thurston copies of such filings for which confidential treatment has not been requested.

Representations and Warranties of Thurston and Commencement

- In the Merger Agreement, Thurston has made representations and warranties to Commencement, and Commencement has made representations and warranties to Thurston. The more significant of these relate to (among other things):
 - organization, standing and power;
 - capitalization;
 - authority, no violation;
 - consents and approvals;
 - reports;
 - financial statements;
 - absence of changes;
 - compliance with applicable law;
 - material contracts, defaults;
 - employee benefit plans;
 - litigation;
 - approvals;
 - opinion;
 - information;
 - labor matters;
 - environmental matters;
 - loan matters;
 - intellectual property;
 - transactions with affiliates;
 - derivative instruments and transactions;
 - fiduciary accounts;
 - taxes;
 - community reinvestment act compliance;
 - insurance;
 - title;
 - investment portfolio;
 - books and records;
 - indemnification;
 - broker's fees;

- transactions in securities;
- registration obligation;
- representations not misleading; and
- no additional representations.

Interests of Directors and Officers of Thurston in the Merger

In considering the recommendation of the board of directors of Thurston to vote for the proposal to approve the Merger Agreement, you should be aware that certain directors and executive officers of Thurston have interests in the Merger that are in addition to, or different from, their interests as shareholders of Thurston. The board of directors of Thurston was aware of these interests when it approved the Merger Agreement.

Employment Arrangements

As a condition to the closing of the Merger, James H. Haley, President and Chief Executive Officer of Thurston, has agreed to enter into a written employment arrangement with Commencement. Mr. Haley will receive a monthly salary of \$15,417 pursuant to his arrangement. In addition, Mr. Haley will be eligible to participate in Commencement's employee benefit plans available to all Commencement employees.

Change-in-Control Payments

Thurston is party to a Severance/Change of Control Agreement with James H. Haley that provides for severance benefits in the event of certain qualifying events. Pursuant to the Severance/Change of Control Agreement dated as of April 25, 2008, between Thurston and James H. Haley, the President and Chief Executive Officer of Thurston, Mr. Haley will be entitled to a change in control payment in an amount equal to approximately \$360,000, which represents two times Mr. Haley's base salary as currently in effect as of the change of control. Thurston will expense the estimated payment to Mr. Haley under the terms of his Severance/Change of Control Agreement, and record it as a liability on Thurston's general ledger prior to the closing.

The Chief Financial Officer of Thurston, Tom Dhamers is party to a Severance Agreement with Thurston which provides that he will be paid a severance payment of \$152,650 as of the Closing if he is not offered employment with Commencement after the Closing. Commencement has not offered Mr. Dhamers employment with Commencement after the Merger and Mr. Dhamers will be entitled to receive a severance payment equal to \$152,650 at the closing.

Stock Appreciation Rights Plan Stock

Certain individuals and officers of Thurston hold shares of Thurston restricted common stock that as of the date of this joint proxy statement/offering memorandum have not vested. Under the terms of their restricted stock agreements ("SARs") and the Thurston equity plan, these shares of restricted common stock will become fully vested as a result of the Merger, subject to any tax withholding, and the holders of the restricted stock will receive varying consideration for their SARs based on the difference between the stockholders' equity per share of Thurston as of the date of exercise of the SAR minus the base SAR valuation (as defined in each person's SAR Agreement). The following table sets forth the number of unvested shares of SARs held by certain employees of Thurston that will become vested as a result of the Merger.

Individual	No. of Shares of Unvested Restricted Common Stock
James H. Haley	20,000
Chris Knudsvig	6,000
Kasandra Jaquez	2,000
Heather Bradley	2,000

Summary of Payments to Certain Executive Officers.

The following table summarizes certain payments to be received by certain executive officers of Thurston as a result of the consummation of the transactions under the Merger Agreement. The amounts are calculated as of July 8, 2016, the day the Merger was publicly announced. These estimated amounts are based on multiple assumptions that may or may not actually occur, including assumptions described in this joint proxy statement/offering memorandum. Some of these assumptions are based on information not currently available and, as a result, the actual amounts, if any, to be received by an executive officer may differ from the amounts set forth below. In addition, with respect to Mr. Haley, these amounts do not include any payments he may receive while he is employed by Commencement.

Name	Cash⁽¹⁾	Equity⁽²⁾	Perquisites/ Benefits	Tax Reimbursement	Total
James H. Haley	\$360,000	\$2,200	\$0	\$0	\$362,200
Thomas L. Dhamers	\$152,650	\$0	\$0	\$0	\$152,650

⁽¹⁾ Represents amount payable under employment agreements with respect to change in control provisions.

⁽²⁾ Represents amount payable to the officer with respect to SARs that will be accelerated as a result of the Merger.

Indemnification

Pursuant to the Merger Agreement, for a period of six (6) years after the Effective Time, all rights to indemnification currently existing in favor of any officer or director of Thurston with respect to matters existing or occurring at or prior to the Effective Time of the Merger will continue in effect and will be enforceable against Commencement. Commencement and Thurston agreed that from and after the Effective Time of the Merger, Commencement will, for a period of six (6) years, indemnify, defend and hold harmless each present and former director, officer and employee of Thurston to the fullest extent currently provided under the articles of incorporation and/or bylaws of Thurston if such claim pertains to any matter arising, existing or occurring at or prior to the Effective Time of the Merger.

Insurance

Commencement has agreed that for a period of six (6) years after the effective time of the Merger, Commencement will maintain an officers' and directors' liability insurance policy for present and former officers and directors of Thurston, providing substantially similar coverage to that offered under Thurston's existing officers' and directors' liability insurance policy; provided, however, that in no event shall Commencement be obligated to expend an amount in excess of 150% of the annual premiums paid by Thurston as of the date of the Merger Agreement for such insurance.

Board Appointments

Commencement has agreed to, contingent upon the Closing of the Merger, to reduce its board size to seven (7) members, and appoint four (4) members of the Thurston board of directors to the board of directors of Commencement, to hold office until the first annual meeting of shareholders of Commencement, until their successor is elected and qualified or until otherwise removed. The four (4) members of the Thurston board of directors that will join the Commencement board, are Stephen J. Bean, David Owens, M.D., Rob C. Rice, and Cheryl L. Duryea. Their appointment is subject to non-objection by Commencement's primary federal regulator.

Advisory Board

Following the Merger, an advisory board of Commencement shall be formed consisting of those members of the Thurston board of directors as of the Effective Time that desire to serve in that capacity at the time of the Closing (the "Advisory Board"). The Advisory Board shall meet quarterly with one or more of the executive officers of Commencement. Stephen J. Bean, who currently serves as Chairman of the Board of Directors of Thurston, will serve as Chairman of the Advisory Board for which he will be paid Two Thousand Dollars (\$2,000) per month.

Stock Ownership

The directors and executive officers of Thurston beneficially owned as of the record date, a total of 166,360 shares of Thurston Stock, representing approximately 12.29% of the total outstanding shares of Thurston Stock. Each of the directors of Thurston, with the exception of Joyce Targus, who was not permitted to sign a Voting Agreement due to applicable restrictions relating to her employment unrelated to Thurston, have entered into a Voting Agreement pursuant to which, among other things, the directors have agreed to vote any shares they beneficially own in favor of the Merger. The directors and executive officers of Thurston will receive the same per share merger consideration as the other shareholders of Thurston.

Waivers and Amendment

Prior to the Effective Time, any provision of the Merger Agreement may be waived by the party benefited by such provision.

Subject to applicable law, the Merger Agreement may be amended or modified at any time, by an agreement in writing among the parties executed in the same manner as the Merger Agreement, except that after the approval of the principal terms of the Merger Agreement by the Thurston shareholders, no amendment shall be made which by law requires further approval by the shareholders of Thurston without obtaining such approval.

Termination of the Merger Agreement

The Merger Agreement may be terminated, and the Transaction may be abandoned, at any time prior to the Effective Time:

- by mutual consent in writing of Thurston and Commencement;
- provided that the terminating party is not then in material breach of any representation, warranty, covenant or agreement contained herein, by Commencement or Thurston, in the event of a breach by the other party or parties of any representation, warranty, covenant or

agreement contained herein, which breach (i) cannot be or has not been cured within 30 days after the giving of written notice to the breaching party or parties of such breach and (ii) would entitle the non-breaching party or parties not to consummate the Transaction contemplated hereby under Section 8.2(a) or (b) or 8.3(a) or (b), as the case may be;

- by either party in the event the Merger is not consummated by January 31, 2017, except to the extent that the failure of the Merger then to be consummated by such date shall be due to the failure of the party seeking to terminate pursuant to Section 9.1(c) to materially perform or observe the covenants and agreements of such party or parties set forth in the Merger Agreement;
- by either party, in the event the approval of any Governmental Authority required for consummation of the Merger and the other transactions contemplated by the Merger Agreement shall have been denied by final nonappealable action of such Governmental Authority or an application therefor shall have been permanently withdrawn at the request of a Governmental Authority, provided, however, that no party or parties shall have the right to terminate the Merger Agreement pursuant to Section 9.1(d) if such denial shall be due to the failure of the party or parties seeking to terminate the Merger Agreement to perform or observe the covenants of such party or parties set forth herein;
- by either party, if the approval of the shareholders of Thurston or Commencement contemplated by the Merger Agreement shall not have been obtained by reason of the failure to obtain the required vote at the Thurston Meeting or Commencement Meeting or at any adjournments or postponements thereof; provided, however, that no party may terminate the Merger Agreement pursuant to Section 9.1(e) if such party has breached in any material respect any of its obligations under the Merger Agreement, in each case in a manner that reasonably likely caused the failure to obtain the Thurston Shareholder Approval at the Thurston Meeting or any adjournment or postponement thereof or the Commencement shareholder approval at the Commencement Meeting or any adjournment or postponement thereof;
- by Commencement prior to the Thurston shareholder approval having been obtained, if (i) Thurston shall have materially breached the provisions of Section 7.7 in any respect adverse to Commencement, (ii) the Thurston Board shall have failed to make its recommendation referred to in Section 7.2, withdrawn such recommendation or modified or changed such recommendation in a manner adverse in any respect to the interests of Commencement, or (iii) Thurston shall have materially breached its obligations under Section 7.2 by failing to call, give notice of, convene and hold the Thurston Meeting in accordance with Section 7.2;
- by Commencement prior to the Thurston shareholder approval having been obtained, if a publicly announced tender offer or exchange offer for 15% or more of the outstanding shares of Thurston Common Stock is commenced (other than by Commencement or a Subsidiary thereof), and the Thurston Board recommends that the shareholders of Thurston tender their shares in such tender or exchange offer or, within 15 business days of such public announcement, otherwise fails to recommend that such shareholders reject such tender offer or exchange offer;
- by the Thurston Board, upon written notice to Commencement, if the board of directors of Thurston has in good faith determined that an Acquisition Proposal constitutes a Superior Proposal; provided, however, that Thurston will not be permitted to terminate the Merger

Agreement pursuant to this Section 9.1(h) unless (i) it has not breached Sections 7.2 and 7.7 of the Agreement, (ii) subsequent to delivering such notice of termination it intends to enter into a letter of intent, acquisition agreement or similar agreement relating to such Superior Proposal, (iii) it has provided Commencement at least five days' prior written notice advising Commencement that the Thurston Board is prepared to accept a Superior Proposal and given Commencement, if it so elects, an opportunity to amend the terms of the Merger Agreement (and negotiated with Commencement in good faith with respect to such terms) in such a manner as would enable the Thurston Board to proceed with the Transaction on such revised terms such that the Acquisition Proposal would no longer constitute a Superior Proposal and (iv) it delivers to Commencement the Break-Up Fee in accordance with Section 9.2(d) herein;

- by either party, upon written notice, after an Acquisition Proposal shall have been publicly announced or otherwise publicly communicated (or any person shall have publicly announced, publicly communicated or publicly made known an intention, whether or not conditional, to make an Acquisition Proposal, or publicly reiterated a previously expressed plan or intention to make an Acquisition Proposal) at any time after the date of the Merger Agreement and prior to the taking of the vote of the shareholders of Thurston contemplated by the Merger Agreement at the Thurston Meeting; or
- by Thurston prior to the Commencement shareholder approval having been obtained, if (i) the Commencement Board shall have failed to make its recommendation referred to in Section 7.2, withdrawn such recommendation or modified or changed such recommendation in a manner adverse in any respect to the interests of Thurston, or (ii) Commencement shall have materially breached its obligations under Section 7.2 by failing to call, give notice of, convene and hold the Commencement Meeting in accordance with Section 7.2.

Termination Fees

Termination Fee Payable by Thurston. Due to expenses, direct and indirect, incurred by Commencement in negotiating and executing the Merger Agreement and in taking steps to effect the Transaction, Thurston will pay to Commencement Three Hundred Thousand Dollars (\$300,000) if Commencement terminates the Merger Agreement pursuant to Section 9.1(b). If the Termination Fee becomes payable, it will be payable on Commencement's demand and must be paid by Thurston within three business days following the date of Commencement's demand.

Termination Fee Payable by Commencement. Due to expenses, direct and indirect, incurred by Thurston in negotiating and executing the Merger Agreement and in taking steps to effect the Transaction, Commencement will pay to Thurston Three Hundred Thousand Dollars (\$300,000) if Thurston terminates the Merger Agreement pursuant to Section 9.1(b). If the Termination Fee becomes payable, it will be payable on Thurston's demand and must be paid by Commencement within three business days following the date of Thurston's demand.

Break-Up Fee

If (a) the Merger Agreement is terminated pursuant to Section 9.1(g) (Certain Tender or Exchange Offer) or 9.1(h) (Superior Proposal), then Thurston will pay to Commencement a fee equal to Six Hundred Thousand Dollars (\$600,000) (the "Break-Up Fee") on the third business day following their termination of the Merger Agreement. If the Merger Agreement is terminated pursuant to Section 9.1(i) (Acquisition

Proposal) and within twelve (12) months after such termination, Thurston enters into a definitive agreement, then Thurston will promptly pay to Commencement the Break-Up Fee.

Expenses

Except as otherwise provided in the Merger Agreement, Thurston and Commencement will each pay their respective expenses costs and expenses incurred in connection with the completion of the transactions contemplated in the Merger Agreement.

Material U.S. Federal Income Tax Consequences of the Merger to Thurston Shareholders

Subject to the limitations and qualifications described herein, the following discussion constitutes the opinion of Keller Rohrback L.L.P. as to the material U.S. federal income tax consequences of the Merger to holders of Thurston Common Stock. This discussion is based on currently existing provisions of the Internal Revenue Code of 1986, as amended (the “Code”), existing regulations thereunder (including final, temporary or proposed) and current administrative rulings and court decisions, all of which are subject to change. Any such change, which may or may not be retroactive, could alter the tax consequences described herein. The following discussion is intended only as a general summary of the material federal income tax consequences of the Merger and is not a complete analysis or listing of all potential tax effects relevant to a decision on whether to vote in favor of approval of the Merger.

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

- foreign persons or U.S. persons whose “functional currency” (as defined in the Code) is not the U.S. dollar;
- financial institutions, mutual funds or insurance companies;
- dealers in securities or foreign currencies or traders in securities who elect to apply a mark-to-market method of accounting;
- tax-exempt organizations;
- S corporations, partnerships or other pass-through entities;
- Thurston shareholders whose shares are qualified small business stock for purposes of Section 1202 of the Code or who may otherwise be subject to the alternative minimum tax provisions of the Code;
- Thurston shareholders who received their Thurston Common Stock through the exercise of employee stock options or otherwise as compensation or through a tax-qualified retirement plan; or
- Thurston shareholders who hold their Thurston Common Stock as part of a “hedge,” “straddle,” “constructive sale,” or “conversion” transaction.

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

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

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

THURSTON SHAREHOLDERS ARE URGED TO CONSULT WITH THEIR OWN TAX ADVISORS AS TO THE TAX CONSEQUENCES OF THE MERGER IN THEIR PARTICULAR CIRCUMSTANCES, INCLUDING THE APPLICABILITY AND EFFECTS OF U.S. FEDERAL (INCLUDING THE ALTERNATIVE MINIMUM TAX), STATE, LOCAL OR FOREIGN AND OTHER TAX LAWS AND OF CHANGES IN THOSE LAWS, AS WELL AS OF THE OWNERSHIP AND DISPOSITION OF THE SHARES OF COMMENCEMENT COMMON STOCK RECEIVED IN THE MERGER.

It is a condition to Thurston’s obligation to complete the Merger that Thurston receive an opinion of Keller Rohrback L.L.P. to the effect that the Merger will be treated for U.S. federal income tax purposes as a “reorganization” within the meaning of Section 368(a) of the Code dated as of the Closing Date of the Merger. In rendering its opinion to be delivered at the time of the completion of the Merger, Keller Rohrback L.L.P. will rely upon, certain customary qualifications, assumptions and representations contained in letters and certificates from officers of Commencement and Thurston. If any of the qualifications, assumptions or representations is inconsistent with the actual facts, the U.S. federal income tax consequences of the Merger could be adversely affected.

The tax opinion given in connection with the Merger or described herein will not be binding on the Internal Revenue Service (the “IRS”). Neither Commencement nor Thurston intends to request any ruling from the IRS as to the U.S. federal income tax consequences of the Merger. Consequently, no assurance can be given that the IRS will not assert, or that a court would not sustain, a position contrary to any of the tax consequences set forth below.

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

Tax Consequences of the Merger for Commencement and Thurston.

No gain or loss will be recognized by Commencement or Thurston as a result of the Merger.

Exchange of Thurston Stock for Commencement Stock.

Except as discussed below under “—*Cash in Lieu of Fractional Shares of Commencement Stock*,” a U.S. holder will not recognize gain or loss in connection with the exchange of Thurston Stock for Commencement Stock pursuant to the Merger.

A U.S. holder’s aggregate tax basis in the Commencement Stock received in the Merger, including any fractional shares deemed received by the U.S. holder under the treatment discussed below under “—*Cash in Lieu of Fractional Shares of Commencement Stock*,” will equal such U.S. holder’s aggregate tax basis in the Thurston Stock surrendered by such U.S. holder in the Merger. The holding period for the shares of Commencement Stock received by such U.S. holder in the Merger, including any fractional shares deemed received by the U.S. holder under the treatment discussed below under “—*Cash in Lieu of Fractional Shares of Commencement Stock*,” will include the holding period for the shares of Thurston Stock exchanged for Commencement Stock.

Cash in Lieu of Fractional Shares of Commencement Stock.

A holder of shares of Thurston common stock receiving cash in lieu of a fractional share of Commencement common stock will be treated as having received a fractional Commencement share pursuant to the Merger and then as having exchanged the fractional Commencement share for cash in a redemption by Commencement. Generally, this deemed redemption will be treated as a sale or exchange and the holder will recognize gain or loss equal to the difference between (i) the amount of cash received in lieu of the fractional Commencement share and (ii) the portion of the holder’s aggregate adjusted tax basis in the shares of Thurston common stock surrendered allocable to such fractional share. Such gain or loss generally will be long-term capital gain or loss if the holder’s holding period for the Thurston common stock exchanged by such holder for the fractional share is more than one (1) year as of the date of the Merger. The deductibility of capital losses may be subject to limitations.

Dissenting Shareholders.

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

Reporting Requirements.

A U.S. holder that receives shares of Commencement Stock as a result of the Merger will be required to retain records pertaining to the Merger. Each U.S. holder that is required to file a U.S. tax return and that is a “significant holder” that receives Commencement Stock in the Merger will be required to file a statement with the significant holder’s U.S. federal income tax return setting forth: (i) such significant holder’s basis (determined immediately before the exchange) in the Thurston Stock surrendered; (ii) the fair market value (determined immediately before the exchange) of the Thurston Stock that is exchanged by such significant holder; (iii) the names of Thurston and Commencement and their employer identification numbers; and (iv) the date of the Merger. A “significant holder” is a U.S. holder that receives shares of Commencement Stock in the Merger and that, immediately before the Merger, owned at least 5% of the outstanding stock of Thurston (by vote or value) or securities of Thurston with a tax basis of \$1 million or more.

THE FOREGOING IS NOT A SUBSTITUTE FOR AN INDIVIDUAL ANALYSIS OF THE TAX CONSEQUENCES OF THE MERGER TO THURSTON SHAREHOLDERS. THURSTON SHAREHOLDERS ARE URGED TO CONSULT WITH THEIR OWN TAX ADVISORS AS TO THE TAX CONSEQUENCES OF THE MERGER IN THEIR PARTICULAR CIRCUMSTANCES, INCLUDING THE APPLICABILITY AND EFFECT OF U.S. FEDERAL (INCLUDING THE ALTERNATIVE MINIMUM TAX), STATE, LOCAL OR FOREIGN AND OTHER TAX LAWS AND OF CHANGES IN THOSE LAWS.

Accounting Treatment

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

Regulatory Approvals Required for the Merger

The Merger requires the approval of the FRB and DFI. On or about August 1, 2016, Commencement filed applications with the FRB and DFI to obtain approval of the Merger.

The Merger cannot proceed in the absence of these required regulatory approvals of the Merger. The approval of any notice or application merely implies satisfaction of regulatory criteria for approval, and does not include review of the Merger from the standpoint of the adequacy of the consideration to be received by, or fairness to, shareholders. Regulatory approval does not constitute an endorsement or recommendation of the Merger.

We cannot assure you as to whether or when the requisite regulatory approvals will be obtained, and, if obtained, we cannot assure you as to the date of receipt of any of these approvals, the terms thereof or the absence of any litigation challenging them.

Commencement and Thurston are not aware of any material governmental approvals or actions that are required prior to the parties' completion of the Merger other than those described in this joint proxy statement/offering memorandum. If any additional governmental approvals or actions are required, the parties presently intend to seek those approvals or actions. However, the parties cannot assure you that any of these additional approvals or actions will be obtained.

Dissenters' Rights of Thurston Shareholders

Dissenters' rights will be available to Thurston shareholders in accordance with Chapter 30A.49.090 of the Revised Code of Washington. The required procedure set forth in RCW 30A.49.090 must be followed exactly or any dissenters' rights may be lost.

The information set forth below is a general summary of dissenters' rights as they apply to Thurston shareholders and is qualified in its entirety by reference to RCW 30A.49.090 which is attached to this joint proxy statement/offering memorandum as *Appendix B*.

If a shareholder of Thurston votes the shares held against the Merger, the shareholder shall be entitled to receive the value of such shares in cash, if and when the Merger become effective, upon written demand made to the surviving bank within thirty (30) days after the Effective Date of the Merger, accompanied by the surrender of the stock certificates. The value of such shares shall be determined, as of

the date of the shareholders' meeting approving the merger conversion, by three appraisers, one to be selected by the owners of two-thirds of the dissenting shares, one by the board of directors of the resulting state bank, and the third by the two so chosen. The valuation agreed upon by any two appraisers shall govern. If the appraisal is not completed within ninety days after the Merger or conversion becomes effective, the Director of the DFI shall cause an appraisal to be made.

The dissenting shareholders shall bear, on a pro rata basis based on the number of dissenting shares owned, the cost of their appraisal and one-half of the cost of a third appraisal, and the resulting bank shall bear the cost of its appraisal and one-half of the cost of the third appraisal. If the director causes an appraisal to be made, the cost of that appraisal shall be borne equally by the dissenting shareholders and the resulting bank, with the dissenting shareholders sharing their half of the cost on a pro rata basis based on the number of dissenting shares owned.

Management and Operations After the Merger

Upon the Closing of the Merger between Thurston and Commencement, the separate existence of Thurston will cease. The officers and seven (7) of the directors of Commencement immediately prior to the Merger will continue as directors and officers of Commencement after the Merger. Four (4) members of the Thurston board of directors, Stephen J. Bean, David Owens, M.D., Rob C. Rice, and Cheryl L. Duryea, will join the Commencement board of directors following the Closing of the Merger, and upon receipt of non-objection to their appointment by Commencement's primary federal regulator, and James H. Haley will become a member of the Executive Management Team of Commencement, and serve as the President and Chief Executive Officer of Thurston First Bank (a d/b/a of Commencement Bank). Under the terms of the Merger Agreement, the articles of incorporation and bylaws of Commencement will be the articles of incorporation and bylaws of the combined entity which will retain the name of Commencement. Commencement, as the resulting entity, will continue to operate under its policies, practices and procedures currently in place. Upon completion of the Merger, all assets and property owned by Thurston will immediately become the property of Commencement.

THURSTON SPECIAL MEETING

Date, Place and Time of the Thurston Special Meeting

The special meeting of Thurston shareholders (the "Thurston Meeting") will be held on Wednesday, October 26, 2016, 6:00 p.m. local time at the Waterstreet Café, 610 Water Street SW, Olympia, Washington 98501.

Matters to be Considered

Thurston Proposal 1: Approval of Agreement and Plan of Reorganization. At the Thurston Meeting, Thurston shareholders will consider and vote on a proposal to approve the principal terms of the Merger, as described in the Merger Agreement. Details about the Merger, including Thurston's reasons for the Merger, the effect of approval of the Merger Agreement and the timing of effectiveness of the Merger, are discussed above in the sections entitled "*The Merger*" and "*Unaudited Pro Forma Combined Condensed Financial Information.*" Risks associated with the transaction are discussed in "*Risk Factors,*" above.

THE THURSTON BOARD OF DIRECTORS RECOMMENDS THAT THURSTON SHAREHOLDERS VOTE "FOR" THE APPROVAL OF THURSTON PROPOSAL 1. Unless a contrary choice is specified, proxies solicited by the Thurston board of directors will be voted "FOR" Thurston Proposal 1.

Thurston Proposal 2: Adjournment or Postponement of the Thurston Meeting.

The Thurston Meeting may be adjourned for a period of not more than 45 days to another time or place, if necessary or appropriate, to solicit additional proxies if there are insufficient votes at the time of the Thurston Meeting to approve the Merger proposal.

If, at the Thurston Meeting, the number of shares of Thurston Stock present or represented and voting in favor of the Merger proposal is insufficient to approve the Merger proposal, Thurston intends to move to adjourn the Thurston Meeting in order to enable the Thurston board of directors to solicit additional proxies for approval of the Merger proposal. In that event, Thurston will ask its shareholders to vote only upon the adjournment proposal (Thurston Proposal 2), and not the Merger proposal (Thurston Proposal 1).

In the adjournment proposal, Thurston is asking its shareholders to authorize the holder of any proxy solicited by the Thurston board of directors to vote in favor of granting discretionary authority to the proxy holders, to adjourn the Thurston Meeting to another time and place, if necessary, for the purpose of soliciting additional proxies. If the Thurston shareholders approve the Thurston adjournment proposal, Thurston could adjourn the Thurston Meeting and use the additional time to solicit additional proxies, including the solicitation of proxies from Thurston shareholders who have previously voted.

THE THURSTON BOARD OF DIRECTORS RECOMMENDS THAT THURSTON SHAREHOLDERS VOTE “FOR” THE APPROVAL OF THURSTON PROPOSAL 2. Unless a contrary choice is specified, proxies solicited by the Thurston board of directors will be voted “FOR” Thurston Proposal 2.

Other Matters to Come Before the Thurston Meeting

No other matters are intended to be brought before the Thurston Meeting by Thurston, and Thurston does not know of any matters to be brought before the Thurston Meeting by others. If, however, any other matters properly come before the Thurston Meeting, the persons named in the proxy will vote the shares represented thereby in accordance with their best judgment on any such matter.

Shares Entitled to Vote, Quorum and Vote Required

The holders of record of the outstanding shares of Thurston Stock at the close of business on the Thurston Record Date will be entitled to notice of and to vote at the Thurston Meeting. At the close of business on that date, there were 1,353,724 shares of Thurston Stock outstanding and entitled to vote at the Thurston Meeting.

At the Thurston Meeting the shareholders of Thurston will be entitled to one (1) vote for each share of Thurston Stock owned of record on the Thurston Record Date. The holders of a majority of the shares of Thurston Stock entitled to vote at the Thurston Meeting must be present, either in person or by proxy, to constitute a quorum at the Thurston Meeting. The affirmative vote by the holders of two-thirds of the outstanding shares of Thurston Stock is required to approve the Merger Agreement. The affirmative vote by the holders of a majority of the outstanding shares of Thurston Stock entitled to vote at the Thurston Meeting is required to approve the proposal to adjourn or postpone the Thurston Meeting to a later date or dates.

Voting Agreements

The executive officers and certain directors of Thurston have entered into voting agreements to vote the shares of Thurston Stock they control in favor of approval of the Merger Agreement. As of the

Thurston Record Date, 153,060 shares of Thurston Stock, or approximately 11.31% of the outstanding shares of the Thurston Stock entitled to vote at the Thurston Meeting, were bound by the voting agreements.

How to Vote Your Shares

Shareholders of Record.

Thurston shareholders of record may vote by mail or by attending the Thurston Meeting and voting in person or by Internet, as indicated in the materials included with this joint proxy statement/offering memorandum. If a Thurston shareholder chooses to vote by mail, he, she or it should simply mark the enclosed proxy card, date and sign it, and return it in the postage-paid envelope provided. Proxies, in the form enclosed, which are properly executed and returned to Thurston, and not subsequently revoked, will be voted in accordance with the instructions indicated on the proxies. Any properly executed proxy on which voting instructions are not specified will be voted “FOR” the proposal to approve the Merger Agreement and “FOR” the proposal to adjourn or postpone the Thurston Meeting, if necessary.

Shares Held in “Street Name.”

If a Thurston shareholder’s shares of Thurston Stock are held through a bank, broker or other nominee, such Thurston shareholder is considered the beneficial owner of such shares held in “street name.” In such case, this joint proxy statement/offering memorandum has been forwarded by such Thurston shareholder’s bank, broker or other nominee, who is considered, with respect to such shares, the shareholder of record. As the beneficial owner, a Thurston shareholder has the right to direct such bank, broker or other nominee how to vote the shares by following the voting instructions that they have sent, or will send, to the Thurston shareholder. Without specific instructions from the Thurston shareholder, the bank, broker or other nominee is not empowered to vote a Thurston shareholder’s shares on non-routine matters such as the proposal to approve the Merger or the proposal of the Thurston board of directors to adjourn the Thurston Meeting, if necessary. Not voting these shares will not have any effect on the vote to approve the Merger pursuant to the Merger Agreement or the proposal of the Thurston board of directors to adjourn the Thurston Meeting, if necessary. When the vote is tabulated for the proposals, broker non-votes, if any, will only be counted for purposes of determining whether a quorum is present. Accordingly, Thurston advises each Thurston shareholder to promptly give instructions to his, her or its bank, broker or other nominee to vote “FOR” approval of the Merger and “FOR” the proposal to adjourn the Thurston Meeting, if necessary, by using the voting instruction card provided to such Thurston shareholder by his, her or its bank, broker or other nominee, or by voting by Internet. Alternatively, if a Thurston shareholder is a beneficial owner and wishes to vote in person at the Thurston Meeting, the Thurston shareholder must provide a proxy executed in such Thurston shareholder’s favor by the bank, broker or other nominee.

Revocation of Proxies

If you are the record holder of your shares, you may revoke any proxy given pursuant to this solicitation by the board of directors of Thurston at any time before the Thurston Meeting is called to order by:

- giving written notice to the Secretary of Thurston; or
- executing a proxy card bearing a later date and filing that proxy with the Secretary of Thurston at or before the Thurston Meeting.

Attending the Thurston Meeting in person will not revoke a previously granted proxy unless you take one of the steps above to revoke your proxy.

All written notices of revocation and other communications with respect to revocation or proxies should be sent to: Thurston First Bank, 600 Franklin Street SE, Olympia, Washington 98501, Attention: James H. Haley.

If a Thurston shareholder has instructed a broker or other nominee to vote such Thurston shareholder's shares of Thurston Stock, the Thurston shareholder must follow directions received from the broker or other nominee to change his, her or its vote

Solicitation of Proxies; Expenses

This proxy solicitation is made by the board of directors of Thurston. Thurston is responsible for its expenses incurred in preparing, assembling, printing and mailing this joint proxy statement/offering memorandum. Proxies will be solicited through the mail. Additionally, directors, officers and other employees of Thurston may solicit proxies in person, by mail, telephone, facsimile or e-mail. Any such directors, officers and other employees of Thurston will not be additionally compensated.

Attending the Thurston Meeting

All holders of Thurston Stock, including shareholders of record and shareholders who hold their shares in street name through banks, brokers or other nominees, are invited to attend the Thurston Meeting. Thurston shareholders of record can vote in person at the Thurston Meeting. If a Thurston shareholder is not a shareholder of record and would like to vote in person at the Thurston Meeting, such Thurston shareholder must produce a proxy executed in his or her favor by the record holder of such Thurston shareholder's shares. In addition, such Thurston shareholder must bring a form of personal photo identification with him or her in order to be admitted at the Thurston Meeting. Thurston reserves the right to refuse admittance to anyone without proper proof of share ownership or without proper photo identification. The use of cameras, sound recording equipment, communications devices or any similar equipment during the Thurston Meeting is prohibited without Thurston's express written consent.

Adjournments and Postponements

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

Questions and Additional Information

If a Thurston shareholder has questions about the Merger, or the process for voting, or if additional copies of this document or a replacement proxy card are needed, please contact James H. Haley, Thurston First Bank, 600 Franklin Street SE, Olympia, Washington 98501 at (360) 528-4111.

COMMENCEMENT SPECIAL MEETING

Date, Place and Time of the Commencement Special Meeting

The special meeting of Commencement shareholders (the “Commencement Meeting”) will be held on Wednesday, October 26, 2016, at 2:00 p.m. local time at the Bank’s offices, 1102 Commerce Street, Tacoma, Washington 98402.

Matters to be Considered

Commencement Proposal 1: Approval of Agreement and Plan of Reorganization. At the Commencement Meeting, Commencement shareholders will consider and vote on a proposal to approve the principal terms of the Merger, as described in the Merger Agreement. Details about the Merger, including Commencement’s reasons for the Merger, the effect of approval of the Merger Agreement and the timing of effectiveness of the Merger, are discussed above in the sections entitled “The Merger” and “Unaudited Pro Forma Combined Condensed Financial Information.” Risks associated with the transaction are discussed in “Risk Factors,” above.

THE COMMENCEMENT BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT COMMENCEMENT SHAREHOLDERS VOTE “FOR” THE APPROVAL OF COMMENCEMENT PROPOSAL 1. Unless a contrary choice is specified, proxies solicited by the Commencement board of directors will be voted “FOR” Commencement Proposal 1.

Commencement Proposal 2: Adjournment or Postponement of the Commencement Meeting.

The Commencement Meeting may be adjourned for a period of not more than 45 days to another time or place, if necessary or appropriate, to solicit additional proxies if there are insufficient votes at the time of the Commencement Meeting to approve the Merger proposal.

If, at the Commencement Meeting, the number of shares of Commencement Stock present or represented and voting in favor of the Merger proposal is insufficient to approve the Merger proposal, Commencement intends to move to adjourn the Commencement Meeting in order to enable the Commencement board of directors to solicit additional proxies for approval of the Merger proposal. In that event, Commencement will ask its shareholders to vote only upon the adjournment proposal (Commencement Proposal 2), and not the Merger proposal (Commencement Proposal 1).

In the adjournment proposal, Commencement is asking its shareholders to authorize the holder of any proxy solicited by the Commencement board of directors to vote in favor of granting discretionary authority to the proxy holders, to adjourn the Commencement Meeting to another time and place, if necessary, for the purpose of soliciting additional proxies. If the Commencement shareholders approve the Commencement adjournment proposal, Commencement could adjourn the Commencement Meeting and use the additional time to solicit additional proxies, including the solicitation of proxies from Commencement shareholders who have previously voted.

THE COMMENCEMENT BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT COMMENCEMENT SHAREHOLDERS VOTE “FOR” THE APPROVAL OF COMMENCEMENT PROPOSAL 2. Unless a contrary choice is specified, proxies solicited by the Commencement board of directors will be voted “FOR” Commencement Proposal 2.

Other Matters to Come Before the Commencement Meeting

No other matters are intended to be brought before the Commencement Meeting by Commencement, and Commencement does not know of any matters to be brought before the Commencement Meeting by others. If, however, any other matters properly come before the Commencement Meeting, the persons named in the proxy will vote the shares represented thereby in accordance with their best judgment on any such matter.

Shares Entitled to Vote, Quorum and Vote Required

The holders of record of the outstanding shares of Commencement Stock at the close of business on the Commencement Record Date will be entitled to notice of and to vote at the Commencement Meeting. At the close of business on that date, there were 2,223,146 shares of Commencement Stock outstanding and entitled to vote at the Commencement Meeting.

At the Commencement Meeting the shareholders of Commencement will be entitled to one (1) vote for each share of Commencement Stock owned of record on the Commencement Record Date. The holders of a majority of the shares of Commencement Stock entitled to vote at the Commencement Meeting must be present, either in person or by proxy, to constitute a quorum at the Commencement Meeting. The affirmative vote by the holders of a majority of the outstanding shares of Commencement Stock is required to approve the Merger Agreement. The affirmative vote by the holders of a majority of the outstanding shares of Commencement Stock entitled to vote at the Commencement Meeting is required to approve the proposal to adjourn or postpone the Commencement Meeting to a later date or dates.

How to Vote Your Shares

Shareholders of Record.

Commencement shareholders of record may vote by mail or by attending the Commencement Meeting and voting in person or by Internet or telephone, as indicated in the materials included with this joint proxy statement/offering memorandum. If a Commencement shareholder chooses to vote by mail, he, she or it should simply mark the enclosed proxy card, date and sign it, and return it in the postage-paid envelope provided. Proxies, in the form enclosed, which are properly executed and returned to Commencement, and not subsequently revoked, will be voted in accordance with the instructions indicated on the proxies. Any properly executed proxy on which voting instructions are not specified will be voted "FOR" the proposal to approve the Merger Agreement and "FOR" the proposal to adjourn or postpone the Commencement Meeting, if necessary.

Shares Held in "Street Name."

If a Commencement shareholder's shares of Commencement Stock are held through a bank, broker or other nominee, such Commencement shareholder is considered the beneficial owner of such shares held in "street name." In such case, this joint proxy statement/offering memorandum has been forwarded by such Commencement shareholder's bank, broker or other nominee, who is considered, with respect to such shares, the shareholder of record. As the beneficial owner, a Commencement shareholder has the right to direct such bank, broker or other nominee how to vote the shares by following the voting instructions that they have sent, or will send, to the Commencement shareholder. Without specific instructions from the Commencement shareholder, the bank, broker or other nominee is not empowered to vote a Commencement shareholder's shares on non-routine matters such as the proposal to approve the Merger or the proposal of the Commencement board of directors to adjourn the Commencement Meeting, if necessary. Not voting these shares will not have any effect on the vote to approve the Merger pursuant to the Merger

Agreement or the proposal of the Commencement board of directors to adjourn the Commencement Meeting, if necessary. When the vote is tabulated for the proposals, broker non-votes, if any, will only be counted for purposes of determining whether a quorum is present. Accordingly, Commencement advises each Commencement shareholder to promptly give instructions to his, her or its bank, broker or other nominee to vote “FOR” approval of the Merger and “FOR” the proposal to adjourn the Commencement Meeting, if necessary, by using the voting instruction card provided to such Commencement shareholder by his, her or its bank, broker or other nominee, or voting by Internet or telephone. Alternatively, if a Commencement shareholder is a beneficial owner and wishes to vote in person at the Commencement Meeting, the Commencement shareholder must provide a proxy executed in such Commencement shareholder’s favor by the bank, broker or other nominee.

Revocation of Proxies

If you are the record holder of your shares, you may revoke any proxy given pursuant to this solicitation by the board of directors of Commencement at any time before the Commencement Meeting is called to order by:

- giving written notice to the Secretary of Commencement; or
- executing a proxy card bearing a later date and filing that proxy with the Secretary of Commencement at or before the Commencement Meeting.

Attending the Commencement Meeting in person will not revoke a previously granted proxy unless you take one of the steps above to revoke your proxy.

All written notices of revocation and other communications with respect to revocation or proxies should be sent to: Commencement Bank, 1102 Commerce Street, Tacoma, Washington 98402, Attention: H. R. Russell.

If a Commencement shareholder has instructed a broker or other nominee to vote such Commencement shareholder’s shares of Commencement Stock, the Commencement shareholder must follow directions received from the broker or other nominee to change his, her or its vote.

Voting Agreements

All the directors and executive officers of Commencement have entered into voting agreements to vote the shares of Commencement Stock they control in favor of approval of the Merger Agreement. As of the Commencement Record Date, 462,296 shares of Commencement Stock, or approximately 20.79% of the outstanding shares of the Commencement Stock entitled to vote at the Commencement Meeting, were bound by the voting agreements.

Solicitation of Proxies; Expenses

This proxy solicitation is made by the board of directors of Commencement. Commencement is responsible for its expenses incurred in preparing, assembling, printing and mailing this joint proxy statement/offering memorandum. Proxies will be solicited through the mail. Additionally, directors, officers and other employees of Commencement may solicit proxies in person, by mail, telephone, facsimile or e-mail. Any such directors, officers and other employees of Commencement will not be additionally compensated.

Attending the Commencement Meeting

All holders of Commencement Stock, including shareholders of record and shareholders who hold their shares in street name through banks, brokers or other nominees, are invited to attend the Commencement Meeting. Commencement shareholders of record can vote in person at the Commencement Meeting. If a Commencement shareholder is not a shareholder of record and would like to vote in person at the Commencement Meeting, such Commencement shareholder must produce a proxy executed in his or her favor by the record holder of such Commencement shareholder's shares. In addition, such Commencement shareholder must bring a form of personal photo identification with him or her in order to be admitted at the Commencement Meeting. Commencement reserves the right to refuse admittance to anyone without proper proof of share ownership or without proper photo identification. The use of cameras, sound recording equipment, communications devices or any similar equipment during the Commencement Meeting is prohibited without Commencement's express written consent.

Adjournments and Postponements

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

Questions and Additional Information

If a Commencement shareholder has questions about the Merger, or the process for voting, or if additional copies of this document or a replacement proxy card are needed, please contact Ms. Rebecca Williamson, Corporate Secretary, Commencement Bank, 1102 Commerce Street, Tacoma, Washington 98402 at (253) 284-1800.

COMPARISON OF RIGHTS OF SHAREHOLDERS OF THURSTON AND COMMENCEMENT

Summary of Differences in Shareholder Rights

Thurston and Commencement (sometimes referred to individually as the "Bank") are both incorporated under the laws of the state of Washington, which governs the rights of the Thurston and Commencement shareholders. Some key differences between the governing documents of each Bank are:

1. Commencement authorized the issuance of 10,000,000 shares of a single class of stock. Thurston authorized the issuance of 10,000,000 shares, consisting of 7,500,000 shares of common stock, and 2,500,000 shares of preferred stock.
2. Commencement's shares do not have to be represented by certificates. Thurston's shares are represented by certificates.
3. Commencement's annual shareholder meeting is held on such date and at such time as the Board of Directors may determine. Thurston's annual shareholder meeting is held on such date and at such time within 120 days after the end of the Thurston's fiscal year as determined by the Board of Directors.

COMPARISON OF SHAREHOLDER RIGHTS

Commencement and Thurston are Washington corporations and the rights of the shareholders of each Bank are governed by the Washington Business Corporation Act, as well as the articles of incorporation and bylaws of each Bank.

As a result of the Merger, Thurston's shareholders will become Commencement's shareholders. The following is a summary of the material differences between the rights of a Commencement shareholder under Commencement's articles of incorporation and bylaws, and the rights of a Thurston shareholder under Thurston's articles of incorporation and bylaws. The following is not intended to be a complete statement of the differences affecting the rights of the shareholders and is qualified in its entirety by reference to governing law and the governing documents of each Bank.

Shares

Commencement. Commencement's articles of incorporation authorize the issuance of 10,000,000 shares of common stock. No Commencement shares are preferred stock and each share of Commencement common stock has the same relative rights. The shares of common stock provide the Board of Directors with as much flexibility as possible to effect, among other transactions, financings, acquisitions, stock dividends, stock splits and the exercise of employee stock options.

Thurston. Thurston's articles of incorporation authorize the issuance of 10,000,000 shares, consisting of 7,500,000 shares of common stock, and 2,500,000 shares of preferred stock. Each share of Thurston common stock has the same relative rights and is subject to the rights of its preferred stock. Thurston's preferred stock may be issued from time to time in one or more series in any manner permitted by law and the provisions of the articles of incorporation, as determined from time to time by the Board of Directors and stated in the resolution or resolutions providing for its issuance. The Thurston board of directors shall have the authority to fix, determine and to amend, subject to the articles of incorporation, the designation, preferences, limitations and relative rights of the preferred shares of any series that is wholly unissued or to be established. Unless otherwise specifically provided in the resolution establishing any series, the Board of Directors shall further have the authority, after the issuance of preferred shares of a series whose number it has designated, to amend the resolution establishing such series to decrease the number of preferred shares of that series, but not below the number of preferred shares of such series then outstanding.

Certificates of Shares

Commencement. The Commencement shares may, but need not be represented by certificates. The rights and obligations of shareholders are identical, whether or not their shares are represented by certificates. If certificates are issued, such certificates shall state on their face at a minimum: i) the name of the Bank, and that it is organized under the laws of the state of Washington; ii) the name of the person to whom the shares are issued; and iii) the number and class of shares and the designation of the series, if any, the certificate represents. Each share certificate issued must be signed either manually or in facsimile by the Chief Executive Officer or President, and by the Secretary of the Bank. If the person who signed, either manually or in facsimile, a share certificate no longer holds office when the certificate is issued, the certificate is nevertheless valid. If some or all of the shares of the Bank are issued without certificate, within a reasonable time after the issuance of shares without certificates, the corporation shall send the shareholder a record containing the information required on certificates as provided herein.

Thurston. The Thurston shares are represented by certificates signed by the Chairman of the Board, Chief Executive Officer or President and by the Secretary of the Bank, and may be sealed with the seal of

the Bank or a facsimile thereof. Any or all of the signatures upon a certificate may be facsimiles if the certificate is countersigned by a transfer agent or registered by a registrar. If any officer who has signed or whose facsimile signature has been placed upon a certificate no longer holds office when the certificate is issued, the certificate shall nevertheless be valid.

Meetings of Shareholders

Commencement. The bylaws of Commencement provide that annual shareholder meetings shall be on such date and at such time as the Board of Directors may determine.

Thurston. The bylaws of Thurston provide that annual shareholder meetings shall be held on such date and at such time within 120 days after the end of the Thurston's fiscal year as determined by the Board of Directors.

Board of Directors

Commencement. Commencement's articles of incorporation provide that the Board of Directors shall consist of not less than 5 nor more than 15 persons, the exact number to be fixed and determined from time to time by resolution of a majority of the full Board of Directors. The term of each director, including directors selected to fill vacancies, shall expire at the next regular meeting of shareholders at which directors are elected, unless a director resigns or is removed from office. No current director shall stand for election after their 80th birthday. Directors elected to serve on the Board of Directors after February 23, 2016, shall not stand for election to the Board of Directors after their 75th birthday. Any vacancy occurring on the Board of Directors may be filled from time to time in the manner provided by the bylaws.

Thurston. Thurston's articles of incorporation provide that the Board of Directors shall consist of not less than 5 nor more than 20 persons, the exact number to be fixed and determined from time to time by resolution of a majority of the full Board of Directors. The term of each director, including directors selected to fill vacancies, shall expire at the next regular meeting of shareholders at which directors are elected, unless a director resigns or is removed from office. Any vacancy occurring on the Board of Directors may be filled from time to time in the manner provided by the bylaws.

BUSINESS OF THURSTON

Generally

Thurston operates as a state chartered commercial bank with its head office located in the city of Olympia, Washington. Thurston provides commercial banking services to small and medium sized businesses, as well as professionals and individuals in its market area. The emphasis of Thurston is to fully engage itself in the communities it represents.

As a state chartered bank that is not a member of the Federal Reserve System, Thurston is regulated primarily by the Department of Financial Institutions, Division of Banking, for the State of Washington, and the FDIC. Thurston is currently managed by banking executives with proven careers in community banking in the state of Washington primarily related to business banking.

Employees

As of August 8, 2016, Thurston had 18 full time equivalent employees, comprised of seven (7) business development and lending employees, nine (9) operational and systems management employees and two (2) administrative employees. None of Thurston's employees are the subject of collective

bargaining agreements. Thurston provides its employees with a comprehensive program of benefits, including, medical, dental, life and long-term disability insurance, and a 401k retirement plan. Thurston believes these benefits are comparable with the types of plans and benefits other area banks of comparable size provide their employees.

Properties

Thurston currently operates from one location, which is its headquarters in Olympia, Washington. The lease for Thurston's office and headquarters, dated April 26, 2013, as amended, leases 6,562 rentable square feet for a 126 month term, with two (2) five-year renewal options.

Business and Marketing Strategy

Thurston provides local, flexible, and responsive service to entrepreneurs, local businesses, and retail customers with highly skilled, customer-oriented employees who offer quality products and services.

Thurston believes it sets itself apart from its competition by providing the best “relationship-based” services to small to medium sized businesses and their owners in its target markets. These services include:

- experienced bankers: relationship and solutions driven (high touch);
- responsiveness: timely and local decisions;
- customized solutions: based on customer needs;
- technology solutions: that maximize clients’ efficiency;
- providing resources (banking professionals and third party experts) to customers to support their business performance; and
- providing networking and referrals for customers/informative forums (create business networks).

Competition

Thurston faces strong competition, both in attracting deposits and in originating loans, from other commercial banks, savings and loan associations, mutual savings banks and credit unions. These competing financial institutions generally are located or operate in the Olympia, Washington area and many have greater financial resources than Thurston.

Loans

Thurston offers a variety of types of loans to meet the credit needs of the communities it serves. Thurston provides a broad range of commercial lending services. Thurston follows a uniform credit policy which contains underwriting and loan administration criteria, levels of loan commitment, loan types, credit criteria, concentration limits, loan administration, loan review and grading and related matters. In addition, Thurston provides ongoing relationship manager training and review and operates a centralized processing and servicing center for loans. At August 1, 2016, substantially all of Thurston’s loans outstanding were to clients within its market areas.

Commercial Loans. These loans consist primarily of loans to businesses for various purposes, including revolving lines of credit and equipment financing. These loans may be secured by collateral other than real estate, such as inventory, accounts receivable, machinery, government guarantees, or other commercial assets, and they generally mature within one (1) year and have adjustable interest rates. Revolving lines of credit are generally for business purposes, mature annually and have adjustable interest rates. It is Thurston's standard practice in making commercial loans to receive real estate as collateral, if available, in addition to other appropriate collateral. The primary repayment risk of commercial loans is the failure of the borrower's business due to economic or financial factors.

Real Estate Loans. These loans primarily include various types of commercial loans for which Thurston holds real property as collateral. Interest rates on these loans may be fixed for a period or tied to a floating rate index. Real estate construction loans are primarily made for residential properties. Terms may vary depending upon many factors, including location, type of project and financial condition of the borrower. The primary risks of real estate secured loans include the borrower's inability to pay and deterioration in value of the real estate that is held as collateral.

Consumer Loans. While not a primary focus of Thurston, consumer loans are available, including personal loans, and open-end credit lines, both secured and unsecured.

Loan Administration

Thurston's board of directors has approved specific lending policies and procedures for Thurston and is responsible for implementation of the policies. The lending policies and procedures include guidelines for loan term, loan-to-value ratios, collateral appraisals and interest rates. The loan policies also vest varying levels of loan authority in management, Thurston's loan committee and its board of directors. Thurston's management monitors lending activities through regular loan committee meetings, monthly reporting and periodic review of loans.

Interest rates charged on loans vary with the degree of risk, maturity, costs of underwriting and servicing, loan amount, and extent of other banking relationships maintained with clients, and is further subject to competitive pressures, availability of funds and government regulations.

All loan applications are processed and approved locally at Thurston's headquarters office in Olympia by a loan officer up to the loan officer's credit limit and in accordance with Thurston's guidelines and underwriting policies. Credit limits generally vary according to the type of loan and the individual loan officer's experience. Loan applications over the respective loan officer's lending limits must be approved by Thurston's loan committee. Under applicable federal and state law, Thurston's permissible loans to one borrower are also limited. Thurston utilizes internal limits that may be less than or equal to the prevailing legal limits.

Letters of Credit

Thurston issues letters of credit in the ordinary course of its business. Thurston applies the same credit standards to these commitments as it does to all other lending activities and it includes these commitments in its lending risk evaluations. Thurston's exposure to credit loss under letters of credit is represented by the amount of these commitments. Thurston generally seeks collateral, such as real estate, inventory, accounts receivable or other business assets, when issuing letters of credit.

Lending Activities

Thurston aggressively seeks high quality lending relationships. It believes in sound credit analysis, loan documentation and seeks to avoid concentration of loans to a single industry or business sector or in a single class of collateral, such as real estate. Thurston also may participate in loans originated by other banks that have similar lending criteria. Thurston's loan portfolio consists primarily of construction and land development loans, commercial loans and commercial real estate loans. As of June 30, 2016, Thurston had total loans outstanding of \$74.0 million, which equaled approximately 64.0% of Thurston's total deposits and approximately 55.5% of its total assets.

Nonperforming Assets

Thurston's loans are primarily to clients within the Thurston County, Washington area. Credit risk on loans is managed through limits on amounts loaned to individual borrowers, underwriting standards and loan monitoring procedures. To minimize risk, Thurston does not extend credit to a single borrower or group of borrowers in excess of applicable regulatory limits. Collateral for loans varies, but may include real estate, equipment, accounts receivable, inventory and securities. Thurston's interest in collateral is secured through filing mortgages and liens, and in some cases, by possession of the collateral.

Loans are placed on nonaccrual status when they are over 90 days past due, or sooner if trouble is recognized, unless the loan is adequately collateralized and is in the process of collection. No interest is taken into income unless received in cash or until such time as the borrower demonstrates an ability to resume payments of principal and interest. Interest previously accrued but not collected is reversed and charged against income at the time the loan is placed on nonaccrual status. As of June 30, 2016, Thurston had approximately \$626,000 in loans that were in nonaccrual status. These loans represented approximately 0.85% of Thurston's total loans as of June 30, 2016. Thurston did not hold any other real estate owned as of June 30, 2016. See "Management's Discussion and Analysis of Financial Condition and Results of Operations of Thurston."

Investment Activities

The board of directors reviews and approves Thurston's investment policy annually. Thurston's Asset Liability Management Committee is responsible for establishing policies for conducting investment activities and the establishment of risk limits. The board of directors reviews gains and losses on investment transactions and monitors the composition and performance of the investment portfolio on a monthly basis. The overall objectives of the investment policy are to maintain a portfolio of high quality and diversified investments to maximize the long term, total return of the portfolio given liquidity and interest rate risk considerations.

Thurston's current investment policy permits investments in securities issued by the United States Government and federal government agencies; mortgage backed securities issued by Fannie Mae, Freddie Mac and Ginnie Mae; and federal funds sold. The investment policy also permits, with certain limitations, investments in certificates of deposit and equities (limited to FHLB and correspondent banks).

Thurston's investment policy expressly prohibits the use of its investment portfolio for market-oriented trading activities or speculative purposes. Repositioning of securities in the portfolio may take place to complement the overall investment and/or interest rate sensitivity objectives of Thurston.

At the time of purchase, Thurston designates a security as either held-to-maturity or available-for-sale. Securities available-for-sale are reported at fair market value and securities held-to-maturity are reported at amortized cost. Thurston does not maintain a trading portfolio. A periodic review and evaluation

of the available-for-sale and held-to-maturity securities portfolios is conducted to determine if the fair value of any security has declined below its carrying value and whether such decline is other-than-temporary. For securities classified as available-for-sale, unrealized gains and losses are excluded from earnings and reported as an increase or decrease to earnings through other comprehensive income/(loss). If such decline is deemed to be other-than-temporary, the security is written down to a new cost basis and the resulting loss is charged against earnings.

At June 30, 2016, Thurston's investment securities portfolio consists primarily of U.S. Agencies and residential mortgage backed securities ("MBS") guaranteed by agencies sponsored by the US government. Securities available for sale were \$6.7 million at June 30, 2016. See "Management Discussion and Analysis of Financial Condition and Results of Operations."

Deposits and Other Sources of Funds

Thurston's primary sources of funds are client deposits, other borrowings, repayments on loans and investment securities. Loan and investment security repayments are a relatively stable source of funds, while deposit flows and mortgage related investment security prepayments are significantly influenced by general interest rates and money market conditions.

Thurston strives to maintain a high percentage of noninterest-bearing deposits, which are low cost funds and result in higher interest margins. As of June 30, 2016, Thurston's non-interest bearing deposits as a percentage of total deposits was 31.2%.

Thurston offers a variety of interest-bearing accounts designed to attract both short-term and long-term deposits from its clients. These accounts include interest-bearing demand, negotiable order of withdrawal ("NOW") accounts, money market deposit accounts, savings accounts and time certificate of deposit. Interest-bearing accounts can earn interest at rates established by Thurston management based on competitive market factors and the desire to increase or decrease certain types of maturities of deposits consistent with its Asset/Liability Management Policy.

From its inception in 2004, Thurston has employed liquidity management practices including a combination of increased levels of cash and cash equivalent from balances, in addition to a variety and depth of borrowing resources. Thurston has established borrowing arrangements that include Federal Fund lines at three correspondent banks, with total available borrowing capacity of \$10.17 million as of June 30, 2016. Additionally, Thurston has collateralized borrowing arrangements with the Federal Home Loan Bank of Des Moines with gross availability of \$20.327 million as of June 30, 2016. At June 30, 2016, borrowings outstanding from the FHLB totaled \$4.709 million with remaining borrowing capacity of approximately \$15.618 million. There were no additional borrowings outstanding as of June 30, 2016.

BUSINESS OF COMMENCEMENT

Generally

Commencement Bank was approved as a state chartered bank on October 27, 2006, and commenced operations on December 11, 2006. From the beginning, the Bank's goals have been to (i) have a more skilled staff than its competitors, (ii) provide a personal banking environment with individualized client service, (iii) provide high quality flexible products, and (iv) respond promptly to customer requests. The Bank primarily serves small to middle-market companies, professionals and high net worth individuals in the Pierce and King County market areas.

At June 30, 2016, Commencement had total assets of \$189.6 million, deposits of \$162.4 million, and shareholders' equity of \$23.2 million.

Employees

As of June 30, 2016, Commencement had 33 full time equivalent employees and one (1) part-time employee. None of Commencement's employees are the subject of collective bargaining agreements. Commencement provides its employees a comprehensive program of benefits including: medical, dental, life and short/long-term disability insurance, and a 401k retirement plan. These benefits are typically offered within the banking industry and are comparable with the types of plans other area banks provide their employees.

Properties

Commencement currently operates three offices, its headquarters in Tacoma, Pierce County, Washington, a branch in Enumclaw, King County, Washington, and a loan production office in Auburn, King County, Washington. Commencement leases its headquarter offices in Tacoma. It is located in the Tacoma Central Business District at 1102 Commerce Street, Tacoma, King County, Washington, and its principal website is www.commencementbank.com. In June 2014, Commencement established a loan production office in Enumclaw, Washington which was converted to a full-service branch on July 6, 2016. In August 2015, it established a loan production office in Auburn, Washington. The Auburn loan production office occupies a leased premises. The Enumclaw branch building is owned by Commencement which was acquired in January, 2016.

Business and Marketing Strategy

Commencement's business and marketing strategy is to expand its footprint by emphasizing its high quality client service and primarily focusing on the financial needs of small to medium-sized businesses, professionals and high net worth individuals in its market areas.

Commencement intends to pursue a growth strategy, the key components of which include, but may not be limited to:

- increasing market share in existing markets by promoting Commencement's local independence and personalized responsiveness, as an alternative to the existing large regional and national banks operating in Commencement's service area;
- employing and retaining highly experienced, motivated employees at all levels of the organization to ensure that the business objectives of Commencement are achieved with the highest standards of performance and profitability;
- establishing loan production offices in areas it believes will be receptive to its kind of individualized client service, and converting those loan production offices to full-service branches once loan thresholds are met; and
- expanding through acquisition of similarly focused community banks.

Commencement's management believes Commencement can continue to gain market share in Pierce, King and Thurston Counties by continuing to follow and expand on these key components.

Commencement believes that the banking services provided to its target customers in Pierce, King and Thurston Counties has become less personalized as regional and national banks have become larger and less service oriented. To increase efficiency, the focus of the larger institutions has been to concentrate decision-making in large corporate service centers. To compete with these institutions and their approach to banking Commencement focuses on providing exceptional personalized service with rapid and discreet responses through decision-making authority within Commencement. Commencement's management believes these factors are crucial to the ongoing success of Commencement.

Commencement's management believes that an integral part of its growth and success is dependent on a team of employees that is highly experienced, motivated, personable and professional. The organization's employees have been carefully selected and recruited based upon their years of banking experience, business development skills, knowledge and integrity. Commencement specifically recruits individuals who are highly motivated and well-regarded within their communities, and within the banking industry as a whole. It is Commencement's philosophy that personnel who possess these attributes as well as strong community ties will result in lower-than-average turnover while maximizing Commencement's objectives to furnish outstanding client service. In order to attract, recruit, and retain this caliber of experienced professionals, Commencement's management has in place a comprehensive compensation package. Salaries are at rates that are appropriate for skilled individuals within the financial industry.

Growth and Operating Strategies

While Commencement's growth strategy is focused on organic growth and the development of business client relationships from its current locations, Commencement consistently seeks to identify key personnel located regionally at other financial institutions where Commencement may consider establishing a loan production office. If a loan production office is established, the lending activity is consistently monitored to determine if a full-service branch is appropriate for that location. In addition, Commencement has and will continue to examine possible acquisitions of other financial institutions. In any evaluation of potential acquisition candidates or branching opportunities Commencement develops and considers a variety of criteria based on the circumstances of each situation.

When evaluating potential acquisition candidates or other opportunities, the board of directors and senior management of Commencement consider a variety of criteria which generally include:

- the geographic market location of the potential acquisition target and the commercial business demographics of the surrounding community;
- employee experience and cultural fit with Commencement;
- the financial soundness of a potential acquisition target;
- opportunities to improve the efficiency and/or asset quality of an acquisition target through merger;
- the effect of the acquisition on earnings per share and book value;
- existence of sufficient management and other resources to integrate or add to the operations of the acquisition target or branch; and
- the investment required for, and opportunity costs of, the acquisition target.

Organic Growth. Commencement believes that its largest source of organic growth is through its ongoing business development efforts conducted by its management team and relationship officers, which includes an active client referral program. The primary reason for referrals is positive client feedback regarding service and response time. Commencement also believes that economic expansion in its market areas will continue to contribute to organic growth.

Commencement's goal is to continue its expansion while maintaining a profitable, client-focused business banking financial institution. Commencement believes that its existing structure, management, data and operational systems are sufficient to achieve further organic growth in asset size, revenues and capital without proportionate increases in operating costs. Commencement's operating strategy has always been to provide high quality business banking services to clients and increase market share through active solicitation of new business, repeat business and referrals from clients.

Commencement believes its clients seek a banking relationship with a service-oriented business banking organization. Commencement's operational systems have been designed to facilitate personalized service. Commencement believes that its banking locations have an atmosphere which facilitates personalized services and decision-making while offering a broad array of products to meet clients' needs. Though Commencement's primary emphasis is on client service and relationship officers' experience, Commencement intends to continue organic growth and attracting clients by focusing on the following:

- *Products Offered* – Commencement offers a full range of commercial banking products and services, including the following: checking accounts, checking accounts with interest, savings accounts, money market accounts, certificates of deposit, IRA accounts, NOW accounts, CDARs and other reciprocal deposit insurance products, debit cards, a full suite of online banking products, and traditional cash management products. Commencement also offers installment loans and other secured and unsecured loans.
- *Operational Efficiencies* – Commencement seeks to maximize operational and support efficiencies consistent with maintaining high quality client service.
- *Marketing Activities* – Commencement focuses on an active solicitation program for new business and identifying and developing products and services that allow it to effectively compete for small to middle-market business accounts. Commencement's marketing programs utilize local media and promotional materials. Commencement believes that active community involvement contributes to its long-term success.

Competition

Commencement faces strong competition, both in attracting deposits and in originating loans, from other commercial banks, savings and loan associations, mutual savings banks and credit unions that have been able to weather the recent economic downturn. These competing financial institutions generally are located or operate in the Pierce, King and Thurston County areas and many have greater financial resources than Commencement. Commencement's management feels this competition is valuable in that it provides an ever-present need for Commencement to provide not only outstanding client service and products, but also consistently excel in doing so in order to secure, retain and continuously grow its market share. While Commencement's financial resources are not as great as some of its competitors, this competition encourages Commencement to design innovative marketing strategies that best utilize limited advertising funds and other marketing resources.

Loans

Commencement offers a variety of loans to meet the credit needs of the communities it serves. Commencement offers and encourages applications for a variety of secured and unsecured loans to help meet the needs of its clients. Commencement provides a broad range of commercial lending services. Commencement follows a uniform credit policy which contains underwriting and loan administration criteria, levels of loan commitment, loan types, credit criteria, concentration limits, loan administration, loan review and grading and related matters. At June 30, 2016, substantially all loans outstanding were to clients within our market areas.

While specific credit programs may vary from time to time, based on Commencement's policies and market conditions, every effort is made to encourage applications for the following credit services throughout the communities served by Commencement.

Commercial Loans. These loans consist primarily of loans to businesses for various purposes, including revolving lines of credit and equipment financing. These loans may be secured by collateral other than real estate, such as inventory, accounts receivable, machinery, government guarantees, or other commercial assets, and they generally mature within one (1) to five (5) years and have fixed or adjustable interest rates. Revolving lines of credit are generally for business purposes, mature annually and have adjustable interest rates. The primary repayment risk of commercial loans is the failure of the borrower's business due to economic or financial factors.

Real Estate Loans. These loans primarily include various types of commercial loans for which Commencement holds real property as collateral. Interest rates on these loans may be fixed for a period or tied to a floating rate index. Real estate construction loans are primarily made for commercial properties. Terms may vary depending upon many factors, including location, type of project and financial condition of the borrower. The primary risks of real estate secured loans include the borrower's inability to pay and deterioration in value of the real estate that is held as collateral.

Consumer Loans. While not a primary focus of Commencement, consumer loans are available, including personal loans, home equity loans, open-end credit lines, both secured and unsecured, and overdraft protection credit lines.

Loan Administration

Commencement's board of directors has approved specific lending policies and procedures for Commencement and is responsible for implementation of the policies. The lending policies and procedures include guidelines for loan term, loan-to-value ratios, collateral appraisals and interest rates. The loan policies also vest varying levels of loan authority in management, Commencement's loan committee and its board of directors. Commencement's management monitors lending activities through regular loan committee meetings, monthly reporting and periodic review of loans.

Interest rates charged on loans vary with the financial condition of the borrower, degree of risk, maturity, costs of underwriting and servicing, loan amount, and extent of other banking relationships maintained with clients, and is further subject to competitive pressures, availability of funds and government regulations.

All loan applications are processed and approved locally at Commencement's locations by a loan officer up to the loan officer's credit limit and in accordance with Commencement's guidelines and underwriting policies. Credit limits generally vary according to the type of loan and the individual loan officer's experience. Loan applications over the respective loan officer's lending limits must be approved

by Commencement's management loan committee or board of director loan committee, when appropriate. Under applicable federal and state law, Commencement's permissible loans to one borrower are also limited. Commencement utilizes internal limits that may be less than or equal to the prevailing legal limits.

Lending Activities

Commencement aggressively seeks high quality lending relationships. It believes in sound credit analysis, loan documentation and seeks to avoid concentration of loans to a single industry or business sector or in a single class of collateral, such as real estate. Commencement also may participate in loans originated by other banks that have similar lending criteria. Commencement's loan portfolio consists primarily of commercial loans and commercial real estate loans. As of June 30, 2016 and December 31, 2015, Commencement had total loans outstanding of \$149 million and \$145.1 million, which equaled approximately 91.8% and 95.1% of Commencement's total deposits and approximately 78.6% and 81% of its total assets, respectively.

Nonperforming Assets

Commencement's loans are primarily to clients within the Pierce, King and Thurston County areas. Credit risk on loans is managed through limits on amounts loaned to individual borrowers, underwriting standards and loan monitoring procedures. To minimize risk, Commencement does not extend credit to a single borrower or group of borrowers in excess of applicable regulatory limits. Collateral for loans varies, but may include real estate, equipment, accounts receivable, inventory and securities. Commencement's interest in collateral is secured through filing mortgages and liens, and in some cases, by possession of the collateral.

Loans are placed on nonaccrual status when they are over 90 days past due, or sooner if trouble is recognized, unless the loan is adequately collateralized and is in the process of collection. No interest is taken into income unless received in cash or until such time as the borrower demonstrates an ability to resume payments of principal and interest. Interest previously accrued but not collected is reversed and charged against income at the time the loan is placed on nonaccrual status. As of June 30, 2016, Commencement had approximately \$76,000 in loans that were in nonaccrual status and none outstanding as of December 31, 2015. These loans represented approximately 0.05% of Commencement's total loans as of June 30, 2016. See *"Management's Discussion and Analysis of Financial Condition and Results of Operations of Commencement."*

As of June 30, 2016, Commencement had one (1) other real estate owned property totaling approximately \$337,500, which when combined with \$76,000 in nonaccrual loans totaled \$414,000 of nonperforming assets and represented .21% of Commencement's total assets as of June 30, 2016.

Investment Activities

The board of directors reviews and approves Commencement's investment policy annually. The Investment Committee is responsible for establishing policies for conducting investment activities and the establishment of risk limits. The board of directors reviews gains and losses on investment transactions and monitors the composition and performance of the investment portfolio on a quarterly basis. The overall objectives of the investment policy are to maintain a portfolio of high quality and diversified investments to maximize the long term, total return of the portfolio given liquidity and interest rate risk considerations.

Commencement's current investment policy permits investments in securities issued by the United States Government and federal government agencies and government sponsored enterprises; municipal and revenue bonds; mortgage backed securities issued by federal government agencies, government sponsored

enterprises, and private issuers; investment grade corporate bonds; and federal funds sold. The investment policy also permits, with certain limitations, investments in certificates of deposit and equities (limited to FHLB and correspondent banks).

Commencement's investment policy expressly prohibits the use of its investment portfolio for market-oriented trading activities or speculative purposes. Repositioning of securities in the portfolio may take place to complement the overall investment and/or interest rate sensitivity objectives of Commencement.

At the time of purchase, Commencement designates a security as either held-to-maturity or available-for-sale based upon its ability and intent. Securities available-for-sale are reported at fair market value and securities held-to-maturity are reported at amortized cost. Commencement does not maintain a trading portfolio. A periodic review and evaluation of the available-for-sale and held-to-maturity securities portfolios is conducted to determine if the fair value of any security has declined below its carrying value and whether such decline is other-than-temporary. For securities classified as available-for-sale, unrealized gains and losses are excluded from earnings and reported as an increase or decrease to earnings through other comprehensive income/(loss). If such decline is deemed to be other-than-temporary, the security is written down to a new cost basis and the resulting loss is charged against earnings.

At June 30, 2016 and December 31, 2015, Commencement's securities portfolio consisted of residential mortgage backed securities with fair values totaling \$3.2 million and \$3.4 million, respectively. See *"Management's Discussion and Analysis of Financial Condition and Results of Operations of Commencement."*

Deposits and Other Sources of Funds

Commencement's primary sources of funds are client deposits, other borrowings, repayments on loans and investment securities. Loan and investment security repayments are a relatively stable source of funds, while deposit flows and mortgage related investment security prepayments are significantly influenced by general interest rates and money market conditions.

Commencement strives to maintain a high percentage of noninterest-bearing deposits, which are low cost funds and result in higher interest margins. At June 30, 2016, Commencement's ratio of noninterest-bearing deposits to total deposits was 21.4% compared to 18.5% and 17.1% at December 31, 2015 and 2014, respectively.

Commencement offers a variety of interest-bearing accounts designed to attract both short-term and long-term deposits from its clients. These accounts include interest-bearing demand, negotiable order of withdrawal ("NOW") accounts, money market deposit accounts, savings accounts and time certificate of deposit. Interest-bearing accounts can earn interest at rates established by Commencement management based on competitive market factors and the desire to increase or decrease certain types of maturities of deposits consistent with its Asset/Liability Management Policy.

Commencement has a borrowing arrangement with the Federal Reserve Bank of San Francisco under which advances are secured by portions of Commencement's loan and investment securities portfolios. Commencement's credit limit varies according to the amount and composition of the assets pledged as collateral. At June 30, 2016, amounts pledged and available borrowing capacity under such limits were approximately \$17.9 million and \$9.4 million, respectively. There were no borrowings outstanding under this arrangement as of June 30, 2016 and December 31, 2015 or 2014.

Commencement has a borrowing arrangement with the Federal Home Loan Bank under which advances are secured by portions of Commencement's loan portfolio. Commencement's credit limit varies according to its total assets and the amount and composition of the loan portfolio pledged as collateral. At June 30, 2016, amounts pledged and the net available borrowing capacity under such limits were approximately \$73.6 million and \$43.2 million, respectively.

MANAGEMENT OF COMMENCEMENT

Executive Officers

H. R. Russell

President and Chief Executive Officer

Age: 61

John Manolides

Executive Vice President and Chief Credit Officer

Age: 53

Darin Johnson

Senior Vice President and Chief Financial Officer

Age: 44

Mary Ann Haglund

Executive Vice President and Chief Operations Officer

Age: 60

Directors

Commencement's board of directors are elected annually by the shareholders. In electing the members of Commencement's board of directors, the shareholders are not allowed to cumulate their votes for each of the director positions. There are currently ten (10) directors sitting on the board of directors for Commencement. The current members of Commencement's board of directors are as follows:

Charles F. Diesing

Director

Mr. Diesing, a founding director, age 75, has been in the real estate business for more than 40 years. From 1970 to the present, he has acquired over 100 single-family residences, over 2,000 apartment units and various other pieces of real estate. Over the past few years, he has liquidated a significant percentage of the residential portfolio. Currently Mr. Diesing is retired and oversees his real estate holdings.

John C. James

Director

Mr. James, a founding director, age 72, retired on May 31, 2005 after 36 years with the Frank Russell Company (Russell Investment Group) where he served as Western Division Director for US Distribution, Regional Director, HR and Operations Director, President of Russell Building Management Co., as well as other duties and responsibilities. He received his BSBA from Bucknell University and MBA from Pacific Lutheran University. Mr. James' past and present community involvement includes the West End Athletic Club, Metro Park Board, Downtown Tacoma Association, Investment Committee of the

Greater Tacoma Community Foundation, and the Pacific Lutheran University School of Business. Mr. James served as a lieutenant in the United States Army from June 1966 to 1968.

Peter J. Lemcke

Director

Mr. Lemcke, a founding director, age 70, is a native of Tacoma, Washington. He graduated from the University of Puget Sound in 1969 with a B.A. in Business Administration. Mr. Lemcke is the former President and Chief Executive Officer of Zumar Industries Inc., a manufacturer of highway signs and related highway safety products. Mr. Lemcke was the second generation owner of Zumar Industries, which has manufacturing plants in Tacoma, Washington; Los Angeles, California; and Phoenix, Arizona. He is active in the community and various trade organizations.

L. Rose Lincoln Hamilton

Director

Ms. Lincoln Hamilton, a director since 2007, age 63, has more than 40 years of broad experience in nonprofit management, corporate social responsibility, grant making and development. Ms. Lincoln led The Greater Tacoma Community Foundation as President and CEO from 2004 to 2015. At the Community Foundation, she was responsible for increasing the impact and focus of grant making, while continuing to foster increased philanthropic giving in Pierce County. Ms. Lincoln held the positions of Assistant Vice President of Public Relations and Director of Community Relations at Safeco Corporation. While at Safeco, she focused on developing community relations strategies designed to increase neighborliness in urban communities by increasing neighborhood assets and bringing neighbors together around common interests. Ms. Lincoln previously held the positions of Executive Director for Hood River County United Way and Chief Operations Officer of the Seattle-King County Private Industry Council. Ms. Lincoln is a graduate of the University of Connecticut. She is recently retired from the Community Foundation and remains active in many community organizations. She resides in Port Ludlow.

Daniel K. McFarland

Director

Mr. McFarland, a founding director, age 69, is a native of Seattle, Washington. He received his Bachelor's Degree from the University of Puget Sound in 1969. He is retired from his position as President of Ampac Flexibles, Seattle, formerly Mohawk Northern Plastics. He also serves on the board of Liberty Orchards, Cashmere, Washington. Mr. McFarland and his wife, Candace, are active supporters of the University of Puget Sound, Green River Community College, Swedish Medical Center Foundation, and Seattle Children's Hospital.

Thomas H. Nixon

Vice Chairman

Mr. Nixon, a founding director, age 70, is a consultant to small businesses. For approximately 30 years he served the banking community in various capacities, including Senior Vice President and District Manager, Key Bank, Tacoma; Branch Manager and Regional Manager, Puget Sound National Bank. He is a graduate of the University of Washington with a degree in Finance and graduated from the Pacific Coast Banking School at the University of Washington. Mr. Nixon also served as an Aviation Officer Candidate in the U.S. Navy Reserve from 1968-1969. In addition to his banking career, his current community involvement consists of the Foundation for Private Enterprise Education, d/b/a Washington Business Week (Past Chairman, Board of Trustees and Company Advisor). He is also Treasurer of his condominium association. His past community involvement includes: Twin Lakes Golf and Country Club (member and

past President, Board of Trustees); Franciscan Foundation (member, Board of Trustees); Highline Community College (member and past Chair, Board of Trustees); St. Francis Hospital (member, Board of Trustees); and Seattle Seafair Clowns (member).

H. R. Russell

(also President and Chief Executive Officer)

Mr. Russell, a founding director, age 61, the President and Chief Executive Officer of Commencement Bank, has been a resident of the state of Washington for 43 years. He is a graduate of NW Intermediate Banking School and Pacific Coast Banking School and attended the University of Washington. Mr. Russell began his banking experience in 1977 and has been a branch manager, Senior Vice President and commercial loan team leader, Executive Vice President and loan production manager, and Executive Vice President and Chief Credit Officer until resigning from Tacoma, Washington based Columbia Bank in 2004. He is the recipient of the 2014 University of Washington Tacoma Milgard School of Business Leadership Award which recognizes outstanding business leaders in the South Sound Region. His past and present community activities include: the Pierce County American Red Cross (Board President), Puyallup Kiwanis, Auburn Kiwanis, Boy Scouts of America, Tacoma Rotary #8, the Northwest Financial Associations' Employee Benefit Trust, Tacoma Country and Golf Club Finance Committee, Pediatric Infant Care Center in Kent, Community Bankers of Washington Association (Chairman), and is a member of the Impact Investment Committee for the Greater Tacoma Community Foundation.

Thomas A. Valentine

Chairman

Mr. Valentine, a founding director, age 76, has over 40 years of professional experience in general business management, technical systems management, sales and marketing and national account management. He graduated from Florida Technical University in 1964. From 1964 to 1985, Mr. Valentine was employed by AT&T in a variety of management positions in operations, national sales and marketing. From 1985 to 1999, he worked for the Weyerhaeuser Company in Federal Way, Washington as a sales manager, systems manager and director of communications and facilities. From 1999 to 2005, he was engaged in business and technology consulting and a technology startup company in Tacoma Washington, retiring in November 2005. Mr. Valentine's past community and civic organizations include: American Red Cross, Mount Rainer Chapter, (Board Chair, Board member); Tacoma Rotary 8 Club (member and Board member); Franke Tobey Jones Retirement Estates (Chair of the Board, Chair of the Governance Committee); Greater Tacoma Community Foundation (Distribution Committee Member).

James L. Walton

Director

Mr. Walton, a founding director, age 77, served the City of Tacoma for 32 years in several leadership capacities before retiring in 2005 from the position of City Manager. Prior to becoming City Manager, Mr. Walton served as Deputy City Manager, from 1990 to 2003, and Assistant City Manager from 1979 to 1990. His past and current community involvements include: United Way of Pierce County, Campaign Chair, 2005; County Charter Review Commission (elected office), Vice Chair, 2005; William M. Factory Small Business Incubator, Vice Chair 2006 to-2008; Foundation for Tacoma Students, board member; Goodwill Heritage Foundation, board member; Tacoma-Pierce County Black Collective, lifetime member; Franke Tobey Jones Retirement Estates, past board member; and Tacoma Sunrise Rotary, past President, member.

Edward A. Zittel
Director

Mr. Zittel, a founding director, age 66, is a native of Tacoma, Washington. He graduated from the University of Puget Sound and spent the majority of his business career with the CPA firm Knight, Vale and Gregory from 1972 to 2005. During his tenure with the firm, his Federal taxation and business consulting expertise was utilized in working with high net worth individuals and closely held businesses while managing the Tacoma Office. At present, he is the owner and manager of Matman Wrestling Co, Inc. which is a manufacturer and distributor of wrestling team apparel and accessories. His civic and community activities have included: the Chamber of Commerce; the Tacoma Rotary #8; the Tacoma Country and Golf Club (President 2011); the Tacoma Club (President 2000), Tacoma Goodwill Board, and assistance with various charities.

MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF COMMENCEMENT

The following discussion should be read in conjunction with Commencement Bank’s (“Commencement”) financial statements and the accompanying notes included elsewhere in this joint proxy statement/offering memorandum. Commencement’s future operating results may be affected by various trends and factors that are beyond its control. These include the factors set forth in “*Risk Factors*” and “*A Warning About Forward Looking Statements*.” Accordingly, past results and trends may not be reliable indicators of future results or trends. *With the exception of historical information, the matters discussed below include forward-looking statements that involve risks and uncertainties. We caution readers that a number of important factors discussed below could affect Commencement’s actual results and cause actual results to differ materially from those in the forward-looking statements.* **Information presented below as of or for the six-month periods ended June 30, 2016 and 2015, is unaudited and is subject to adjustments that could be made in the course of an audit.**

General

Commencement is a Washington state chartered bank that was incorporated on October 27, 2006, commenced operations on December 11, 2006, and since such date has been in continual operation in the state of Washington. Commencement reports its operations based upon a fiscal year beginning on the first day of January and ending on the last day of December.

At June 30, 2016, Commencement had total assets of approximately \$189.6 million, total liabilities of approximately \$166.4 million, total net loans of approximately \$147.1 million, total deposits of approximately \$162.4 million, and shareholders’ equity of approximately \$23.2 million.

As of June 30, 2016, outstanding shares of Commencement Stock were held by 183 shareholders of record owning 2,222,000 shares. Commencement currently has 10,000,000 authorized shares of Commencement Stock. As of June 30, 2016, there were 42,000 shares of Commencement Stock reserved and subject to exercise and issuance pursuant to Commencement’s equity incentive plan. In addition, there were 393,500 shares available for future grants under the equity incentive plan. Commencement stock is listed for quotation on the OTC Market Group’s OTCQX.

Financial Condition at June 30, 2016 and December 31, 2015

Assets

Commencement reported total assets of \$189.6 million as of June 30, 2016, compared to \$179.1 million as of December 31, 2015. This change was primarily driven by an increase in loans due to growing loan demand and increases in cash from increases in deposits.

Cash and Cash Equivalents

Cash and cash equivalents totaled \$28.9 million at June 30, 2016, compared to \$25.3 million as of December 31, 2015. As Commencement grows its commercial business loan and deposit relationships, a higher level of cash is deemed appropriate to meet the cash needs of its customers.

Securities Available for Sale

Commencement's investment securities portfolio consists primarily of U.S. Agencies, residential mortgage backed securities ("MBS") guaranteed by agencies sponsored by the US government and corporate debt securities. Securities available for sale were \$3.2 million at June 30, 2016, compared to \$3.4 million as of December 31, 2015.

The following table presents the amortized cost and fair values of the "available for sale" investment securities portfolio for the dates presented.

	June 30, 2016		December 31,			
	Amount	%	2015		2014	
			Amount	%	Amount	%
	Amount in thousands					
Securities available for sale						
U.S. Treasury	\$0	0.00%	\$0	0.00%	\$986	33.66%
Mortgage-backed	3,199	100.00%	3,387	100.00%	1,943	66.34%
	<u>\$3,199</u>	<u>100.00%</u>	<u>\$3,387</u>	<u>100.00%</u>	<u>\$2,929</u>	<u>100.00</u>

The following table presents the future maturities of securities as of the dates presented.

	June 30, 2016	
	Amount in thousands	
Maturity or repricing within one year	\$0	0.00%
Maturity or repricing in one to three years	0	0.00%
Maturity or repricing in three to five years	0	0.00%
Maturity or repricing after five years	0	0.00%
	<u>\$0</u>	<u>0.00%</u>
Mortgage-backed securities	3,199	100.00%
	<u>\$3,199</u>	<u>100.00%</u>

Commencement held only mortgage-backed securities at June 30, 2016. Expected maturities generally differ from contractual maturities because borrowers may have the right to call or prepay obligations, with or without call or prepayment penalties.

Loans (net of allowance for loan and lease losses (“ALLL”)) as of June 30, 2016, totaled \$147.1 million, compared to \$143.1 million as of December 31, 2015. This increase was primarily from Commencement’s continued growth in its commercial real estate loan portfolio and commercial loan portfolio from new and existing customers.

Leasehold Improvements and Equipment

Leasehold improvements and equipment were \$1.99 million (net of accumulated depreciation and amortization) as of June 30, 2016, compared to \$600 thousand as of December 31, 2015. This increase was primarily due to capital expenditures associated with Commencement’s Enumclaw, Washington branch which was opened during the third quarter of 2016.

Other Real Estate Owned

As of June 30, 2016 and December 31, 2015, Commencement had \$338 thousand in other real estate owned.

Liabilities

Deposits

Commencement’s deposits were \$162.4 million at June 30, 2016, compared to \$152.6 million as of December 31, 2015. Over this six-month period, Commencement grew its core deposit balance while allowing more rate sensitive time deposits to leave Commencement. As of June 30, 2016 and December 31, 2015, Commencement’s non-interest bearing deposits as a percentage of total deposits increased to 21.4% from 18.5%, respectively. The following table sets forth Commencement’s deposits at June 30, 2016, December 31, 2015 and December 31, 2014.

	As of June 30, 2016	As of December 31,	
		2015	2014
	(dollars in thousands)		
Interest-bearing liabilities			
Negotiable order of withdrawal	\$27,307	\$28,967	\$22,005
Savings deposits	1,647	1,435	1,202
Money Market	40,536	35,772	41,976
Certificates of deposit \$100,000 or less	19,532	14,773	14,900
Certificates of deposit over \$100,000	38,676	43,381	38,160
	<hr/>	<hr/>	<hr/>
Total interest-bearing deposits	127,698	124,328	118,243
Noninterest-bearing deposits	34,685	28,301	24,394
	<hr/>	<hr/>	<hr/>
Total deposits	\$162,383	\$152,629	\$142,637
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Commencement's scheduled maturities of certificates of deposit were as follows:

	<u>June 30, 2016</u>		<u>December 31, 2015</u>	
	<u>Amounts in thousands</u>	<u>%</u>	<u>Amounts in thousands</u>	<u>%</u>
Maturity within one year	\$42,595	73.18%	\$44,694	76.85%
One year up to three years	15,431	26.51%	13,258	22.80%
Three years and over	182	0.31%	202	0.35%
Total	<u>\$58,208</u>	<u>100.00%</u>	<u>\$58,154</u>	<u>100.00%</u>

Non-time deposits, which consist of checking, savings, money market, and negotiable order of withdrawal accounts totaled \$104.2 million, or 64.2% of deposits at June 30, 2016, compared to \$94.5 million, or 61.9% of deposits as of December 31, 2015. Time deposits were 35.8% of deposit balances as of June 30, 2016, and 38.1% of deposit balances as of December 31, 2015. The deposit portfolio mix was a result of increases in core deposit, primarily of money market and noninterest bearing balances.

Shareholder's Equity

Shareholder's equity was \$23.2 million as of June 30, 2016, compared to \$22.5 million as of December 31, 2015. The increase in shareholder's equity is primarily from Commencement's net income for the six months ended June 30, 2016.

Results of Operations for the Six Months Ended June 30, 2016 and June 30, 2015

Average Balances, Interest Income/Expense and Yield/Rates Paid

The following table sets forth Commencement's daily average balance sheet, related interest income or expense, and yield or rate paid for the six months ended June 30, 2016, and June 30, 2015.

	<u>Six Months Ended June 30,</u>					
	<u>2016</u>			<u>2015</u>		
	<u>Average Balance</u>	<u>Interest</u>	<u>Average Yield or Cost</u>	<u>Average Balance</u>	<u>Interest</u>	<u>Average Yield or Cost</u>
(Dollars in thousands)						
Interest-earning assets Securities⁽¹⁾:						
Taxable	\$4,271	\$34	1.59%	\$2,882	\$23	1.60%
Tax-exempt	0	0	0.00%	0	0	0.00%
Total securities	<u>4,271</u>	<u>34</u>	<u>1.59%</u>	<u>2,882</u>	<u>23</u>	<u>1.60%</u>
Federal funds sold	5	0	0.00%	1	0	0.00%
Interest bearing deposits	18,528	67	0.72%	22,169	44	0.40%
Loans ⁽²⁾	148,937	3,835	5.15%	138,228	3,394	4.91%
Total interest-earning assets	<u>\$171,741</u>	<u>\$3,936</u>	<u>4.58%</u>	<u>\$163,280</u>	<u>\$3,461</u>	<u>4.24%</u>
<u>Non-earning assets</u>						
Cash and due from banks	\$5,050			\$3,977		
Allowance for loan losses	(1,951)			(1,854)		
Premises and equipment	1,538			710		
Foreclosed real estate	338			483		
Other assets	<u>5,671</u>			<u>5,169</u>		

	Six Months Ended June 30,					
	2016			2015		
	Average Balance	Interest	Average Yield or Cost	Average Balance	Interest	Average Yield or Cost
Total non-earning assets	10,646			8,485		
Total assets	<u>\$182,387</u>			<u>\$171,765</u>		
Interest-bearing liabilities						
Transaction accounts	\$ 28,902	28	0.19%	\$ 23,138	24	0.21%
Savings deposits	37,221	81	0.44%	42,960	93	0.43%
Time deposits	58,147	254	0.87%	53,985	242	0.90%
Total interest-bearing deposits	<u>124,270</u>	<u>363</u>	<u>0.58%</u>	<u>120,083</u>	<u>359</u>	<u>0.60%</u>
Borrowings	3,234	14	0.87%	3,200	14	0.88%
Total interest-bearing liabilities	<u>127,504</u>	<u>377</u>	<u>0.59%</u>	<u>123,283</u>	<u>373</u>	<u>0.61%</u>
Noninterest-bearing deposits	31,209			26,197		
Other liabilities	746			526		
Total liabilities	<u>159,459</u>			<u>150,006</u>		
Stockholders' equity ⁽¹⁾	22,928			21,759		
Total liabilities and stockholders' equity	<u>\$182,387</u>			<u>\$171,765</u>		
Net interest income and margin ⁽³⁾		<u>\$3,559</u>	4.14%	<u>\$3,088</u>		3.78%
Net interest spread ⁽⁴⁾			3.99%			3.63%
Ratio of average interest-earning assets to average interest-bearing liabilities	134.69%			132.44%		

⁽¹⁾ Average balances exclude unrealized gains (losses) on securities available for sale of \$47 and \$48 for 2016 and 2015, respectively.

⁽²⁾ Average loans are net of deferred loan fees and include non-accrual loans.

⁽³⁾ Net interest margin is computed by dividing net interest income by total average earning assets.

⁽⁴⁾ Net interest spread represents average yield earned on interest-earning assets less the average rate paid on interest-bearing liabilities.

Interest Income

The primary source of income for Commencement is interest income from its loans and investments. Interest income was \$3.94 million for the six-month period ended June 30, 2016, compared to \$3.46 million for the same period in 2015. This increase in interest income for the period ended June 30, 2016 was due to higher average balances of interest earning assets, partially offset by a decrease in the contractual interest rates on loans in the portfolio. The contractual loan rate decrease was a function of higher yielding loans paying off, new loans originated at lower interest rates, and reduced rates on refinanced loans.

Interest Expense

Interest expense was \$377 thousand for the six-month period ended June 30, 2016, compared to \$373 thousand for the same period in 2015. This increase in interest expense for the period ended June 30, 2016 was due to an increase in the average balance of deposits, most of which came from money market deposit accounts.

Net Interest Income

Net interest income is the difference between Commencement's interest income and interest expense. Net interest income was \$3.56 million for the six months ended June 30, 2016, compared to \$3.09 million for the same period in 2015. This change resulted primarily from higher average balances on loans, offset by higher average balances on deposits.

Net Interest Spread

Commencement's net interest spread (the average earning asset yield percentage less average deposit and borrowing cost percentage) was 3.99% for the six-month period ended June 30, 2016, compared to 3.63% for the six-month period ending June 30, 2015. The increase in net interest spread is primarily due to higher loan balances.

Provision / (Benefit) for Loan Losses

The ALLL provision was \$0 for the six months ending June 30, 2016, compared to a reverse ALLL provision of \$(121) thousand for the same period in 2015.

Non-interest Income

Commencement's non-interest income consists primarily of service charges on deposit accounts, earnings on bank owned life insurance, and other non-interest income. Non-interest income was \$208 thousand for the six-month period ended June 30, 2016, compared to \$269 thousand for the same period in 2015.

	Six Months Ended June 30,		Increase (Decrease)
	2016	2015	
	(in thousands)		
Service charges on deposit accounts	\$73	\$75	\$(2)
Earnings on Bank Owned Life Insurance	64	78	(14)
Credit and debit card	29	26	3
Gain (loss) on sale of foreclosed assets	0	52	(52)
Other, including other gains (losses)	42	38	4
Total noninterest income	<u>\$208</u>	<u>\$269</u>	<u>\$(61)</u>

Non-interest Expense

Non-interest expense consists of salaries and related employee benefit costs, occupancy, equipment expense, data processing, depreciation, business development and certain other operating expenses. Non-interest expense was \$2.79 million for the six-month period ended June 30, 2016, compared to \$2.66 million for the same period in 2015. Please see the table below for non-interest expense by category:

	Six Months Ended June 30,		Increase (Decrease)
	2016	2015	
	(in thousands)		
Salaries and employee benefits	\$1,648	\$1,655	\$(7)
Occupancy and equipment	258	234	24
Data processing	188	178	10
Professional fees	122	107	15
Business and Occupation taxes	70	66	4
FDIC insurance	55	51	4
Other	451	367	84
Total noninterest expense	<u>\$2,792</u>	<u>\$2,658</u>	<u>\$134</u>

Provision for Income Taxes

The following table sets forth Commencement's provision for income taxes for the six-month periods ended June 30, 2016, and June 30, 2015, respectively. Commencement's effective tax rate differs from the federal statutory rate primarily due to state income taxes and low income housing tax credits.

The increase in the effective tax rate to 37.8% in 2016 from 31.2% in 2015 is primarily due to an adjustment to prior period tax accruals.

<u>(dollars in thousands)</u>	<u>Six Months Ended</u>	
	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Tax provision	\$369	\$256
Effective tax rate	37.8%	31.2%

Net Income

Commencement reported net income of \$606 thousand for the six-month period ending June 30, 2016, and \$564 thousand for the same period in 2015. The higher net interest income was offset by lower non-interest income and higher non-interest expense.

Financial Condition at December 31, 2015 and December 31, 2014.

Assets

Commencement reported total assets of \$179.1 million as of December 31, 2015, compared to \$167.7 million as of December 31, 2014. This increase in total assets was primarily driven by higher demand deposits and loan growth over the indicated time periods.

Cash and Cash Equivalents

Cash and cash equivalents totaled \$25.3 million at December 31, 2015, compared to \$25.8 million as of December 31, 2014. The change in cash and cash equivalent balances was not significant between the two periods.

Securities

Securities available for sale were \$3.39 million at December 31, 2015, compared to \$2.93 million as of December 31, 2014. Commencement increased its securities portfolio during 2015 as part of the overall growth of the Bank.

There were no securities held to maturity at December 31, 2015 and December 31, 2014.

The following table presents the amortized cost and fair values of the "available for sale" investment securities portfolio as of the years presented.

	December 31, 2015		December 31, 2014	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	Amount in thousands			
Securities available for sale				
U.S. Treasury	\$0	\$0	\$997	\$986
Mortgage-backed	3,364	3,387	1,900	1,943
	<u>\$3,364</u>	<u>\$3,387</u>	<u>\$2,897</u>	<u>\$2,929</u>

The following table presents the future maturities of securities as of the years presented.

	December 31, 2015		December 31, 2014	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	Amount in thousands			
Maturity or repricing within one year	\$0	\$0	\$0	\$0
Maturity or repricing on one to three years	0	0	997	986
Maturity or repricing in three to five years	0	0	0	0
Maturity or repricing after five years	0	0	0	0
	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Mortgage-backed securities	3,364	3,387	1,900	1,943
	<u>\$3,364</u>	<u>\$3,387</u>	<u>\$2,897</u>	<u>\$2,929</u>

Loans

Loans (net of ALLL) as of December 31, 2015, were \$143.1 million compared to \$131.6 million as of December 31, 2014. In 2015, Commencement continued to grow its commercial real estate loan portfolio and commercial loan portfolio from new and existing customers.

Leasehold improvements and equipment

Leasehold improvements and equipment was \$600 thousand as of December 31, 2015, compared to \$698 thousand as of December 31, 2014.

Other Real Estate Owned

As of December 31, 2015, other real estate owned by Commencement totaled \$338 thousand compared to \$642 thousand as of December 31, 2014. This decrease in other real estate owned as of December 31, 2015 was the result of sales of foreclosed properties during 2015 at a loss of \$53 thousand.

Liabilities

Deposits

Commencement's deposits were \$152.6 million at December 31, 2015 compared to \$142.6 million as of December 31, 2014. The increase in deposits is mostly in non-interest bearing deposits and money market deposits. Please see changes in the deposit composition below.

The following table sets forth Thurston's deposits at December 31, 2015 and 2014, respectively.

	As of December 31,	
	2015	2014
	(dollars in thousands)	
Interest-bearing liabilities		
Negotiable order of withdrawal	\$28,967	\$22,005
Savings deposits	1,435	1,202
Money Market	35,772	41,976
Certificates of deposit \$100,000 or less	14,773	14,900
Certificates of deposit over \$100,000	43,381	38,160
Total interest-bearing deposits	124,328	118,243
Noninterest-bearing deposits	28,301	24,394
Total deposits	\$152,629	\$142,637

Commencement's scheduled maturities of certificates of deposit were as follows:

	December 31, 2015		December 31, 2014	
	Amount in thousands	%	Amounts in thousands	%
(dollars in thousands)				
Maturity within one year	\$44,694	76.85%	\$34,635	65.28%
One year up to three years	13,258	22.80%	15,198	28.64%
Three years and over	202	0.35%	3,227	6.08%
Total	\$58,154	100.00%	\$53,060	100.00%

Demand Deposits

Non-time deposits, which consist of checking, savings, money market, and negotiable order of withdrawals, totaled \$94.5 million, or 61.9% of deposits at December 31, 2015, compared to \$89.6 million, or 62.8% of deposits as of December 31, 2014. Time deposits were 38.1% of deposits balances in 2015 compared to 37.2% in 2014. The trend reflects Commencement's efforts to increase non-interest bearing deposits. As a percentage of total deposits, non-interest bearing deposits were 18.5% and 17.1% as of December 31, 2015, and as of December 31, 2014, respectively.

Shareholder's Equity

Shareholder's equity was \$22.5 million as of December 31, 2015, compared to \$21.5 million as of December 31, 2014.

Results of Operations for the years ended December 31, 2015 and December 31, 2014.

Average Balances, Interest Income/Expense and Yield/Rates Paid

The following table sets forth Commencement's daily average balance sheet, related interest income or expense, and rate received or paid for the periods presented.

	Years Ended December 31,					
	2015			2014		
	Average Balance	Interest	Average Yield or Cost	Average Balance	Interest	Average Yield or Cost
(Dollars in thousands)						
Interest-earning assets Securities⁽¹⁾:						
Taxable	\$3,288	\$51	1.55%	\$4,510	\$66	1.46%
Tax-exempt	0	0	0.00%	0	0	0.00%
Total securities	3,288	31	1.55%	4,510	66	1.46%
Federal funds sold	3	0	0.00%	2	0	0.00%
Interest bearing deposits	25,767	103	0.40%	18,976	82	0.43%
Loans ⁽²⁾	142,201	6,977	4.91%	130,739	6,564	5.02%
Total interest-earning assets	171,259	7,131	4.16%	154,227	6,712	4.35%
Non-earning assets						
Cash and due from banks	\$4,335			\$3,747		
Allowance for loan losses	(1,854)			(1,899)		
Premises and equipment	684			781		
Foreclosed real estate	437			669		
Other assets	5,242			5,357		
Total non-earning assets	8,844			8,655		
Total assets	\$180,103			\$162,882		
Interest-bearing liabilities						
Transaction accounts	\$ 27,962	57	0.20%	\$ 20,626	42	0.20%
Savings deposits	40,919	179	0.44%	47,389	255	0.54%
Time deposits	56,369	495	0.88%	49,060	429	0.87%
Total interest-bearing deposits	125,250	731	0.58%	117,075	726	0.62%
Federal funds purchased	1	0	0.00%	2	0	0.00%
Other Borrowings	3,200	28	0.88%	3,202	28	0.87%
Total interest-bearing liabilities	128,451	759	0.59%	120,279	754	0.63%
Noninterest-bearing deposits	28,974			21,177		
Other liabilities	665			332		
Total liabilities	158,090			141,788		
Stockholders' equity ⁽¹⁾	22,013			21,094		
Total liabilities and stockholders' equity	\$180,103			\$162,882		

	Years Ended December 31,					
	2015			2014		
	Average Balance	Interest	Average Yield or Cost	Average Balance	Interest	Average Yield or Cost
	(Dollars in thousands)					
Interest-earning assets Securities⁽¹⁾:						
Net interest income and margin ⁽³⁾		\$6,372	3.72%		\$5,958	3.86%
Net interest spread ⁽⁴⁾			3.57%			3.73%
Ratio of average interest-earning assets to average interest-bearing liabilities	133.33%			128.22%		

(1) Average balances exclude unrealized gains (losses) on securities available for sale of \$50 and \$51 for 2015 and 2014, respectively.

(2) Average loans are net of deferred loan fees and include non-accrual loans.

(3) Net interest margin is computed by dividing net interest income by total average earning assets.

(4) Net interest spread represents average yield earned on interest-earning assets less the average rate paid on interest-bearing liabilities.

Interest Income

The primary source of income for Commencement is interest income. Interest income was \$7.13 million for the year ended December 31, 2015, compared to \$6.71 million for the same period in 2014. The increase in interest income in 2015 was due to higher average balances in interest earning assets which were partially offset by a decrease in the contractual rates of loans in the loan portfolio.

Interest Expense

Interest expense was \$731 thousand for the year ended December 31, 2015, compared to \$726 thousand for the same period in 2014. The change between the two periods was insignificant.

Net Interest Income

Net interest income is the difference between Commencement's interest earned and interest expenses paid for deposits and borrowings. Net interest income was \$6.37 million for year ended December 31, 2015, compared to \$5.96 million for the same period in 2014. The increase in net interest income in 2015 reflects the combined effect of the increase in the loan portfolio and reduced earning rates on assets which were partially offset by reduced costs of liabilities.

Net Interest Spread

Commencement's net interest spread (the average yield on interest earning assets less rates paid on interest bearing liabilities) was 3.57% for the period ended December 31, 2015, compared to 3.73% for the period ended December 31, 2014. The decrease in net interest spread from 2014 to 2015 was because the yields on interest earning assets decreased to a greater degree than the rate paid for deposits and borrowings, as more of Commencement's interest earning assets were in loans.

Provision for/ (Benefit) Loan and Lease Losses ("ALLL")

The reverse provisions for ALLL was \$(121) thousand for the year ended December 31, 2015 compared to an ALLL provision of \$45 thousand for year ended December 31, 2014. The decrease in the provision from 2014 to 2015 reflected net recoveries experienced in 2015 and overall portfolio and improvement in credit quality. There were no charge-offs in 2015 and charge-offs of \$150 thousand in

2014. There were recoveries of \$232 thousand and \$224 thousand for the years ended December 31, 2015 and 2014, respectively.

Non-interest Income

Commencement's non-interest income consists primarily of service charges on deposit accounts, earnings on bank owned life insurance, and other non-interest income. Non-interest income was \$493 thousand for the year ended December 31, 2015, compared to \$415 thousand for the same period in 2014.

	<u>Years Ended December 31,</u>		<u>Increase (Decrease)</u>
	<u>2015</u>	<u>2014</u>	
		(in thousands)	
Service charges on deposit accounts	\$148	\$175	\$(27)
Earnings on Bank Owned Life Insurance	145	128	17
Credit and debit card	50	41	9
Gain (loss) on sale of foreclosed assets	70	(5)	75
Other, including other gains (losses)	80	76	4
Total noninterest income	<u>\$493</u>	<u>\$415</u>	<u>\$78</u>

Non-interest Expense

Non-interest expense consists of salaries and related employee benefit costs, occupancy, equipment expense, data processing, depreciation, business development and certain other operating expenses, including expenses related to other real estate owned. Non-interest expense was \$5.33 million for the year ending December 31, 2015, compared to \$5.01 million for the year ended December 31, 2014. The increase in non-interest expense in 2015 came from expansion of staff and other resources to support the growth of Commencement's customer base.

	<u>Years Ended December 31,</u>		<u>Increase (Decrease)</u>
	<u>2015</u>	<u>2014</u>	
		(in thousands)	
Salaries and employee benefits	\$3,302	\$2,973	\$329
Occupancy and equipment	476	455	21
Data processing	362	342	20
Professional fees	124	168	(44)
Business and Occupation taxes	133	145	(12)
FDIC insurance	103	96	7
Other	338	100	238
Total noninterest expense	<u>\$5,333</u>	<u>\$5,008</u>	<u>\$325</u>

Provision for Income Taxes

The following table sets forth Commencement's provision for income taxes for the years ended December 31, 2015 and 2014. The increase in the effective tax rate from 2014 to 2015 was insignificant.

<u>(dollars in thousands)</u>	<u>For the Year Ended December 31,</u>	
	<u>2015</u>	<u>2014</u>
Tax provision	\$511	\$400
Effective tax rate	30.9%	30.3%

The effective tax rate differed from the Federal Statutory rate primarily due to tax-free bank owned life insurance earnings.

Net Income

Commencement reported a net income of \$1.14 million for the year ended December 31, 2015, compared to net income of \$920 thousand for the year ended December 31, 2014. The increase in net income from 2014 to 2015 is primarily due to higher interest income and non-interest income, partially offset by higher non-interest expense.

Loan Portfolio Composition

Overall, management believes that Commencement's loan portfolio quality is indicative of the general economic condition of western Washington and more specifically, the Puget Sound Area where the majority of Commencement's loans are originated. In order to maintain the quality of its loan portfolio, Commencement follows aggressive loan grading policies that have been developed by management and approved by Commencement's board of directors in light of applicable regulations. Commencement also pursues an aggressive collection policy with respect to loans that have fallen into nonaccrual status. On a regular basis, Commencement engages a third party to review its loan portfolio in light of applicable regulations so that Commencement can assess and correct any deficiencies.

The following table sets forth the amount of our loans outstanding at the dates indicated.

	2015		2014		December 31, 2013		2012		2011	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
<i>Dollars in thousands</i>										
Real Estate										
Construction, land and land development	\$4,187	2.89%	\$3,651	2.74%	\$1,355	1.06%	\$6,146	5.57%	\$10,282	9.73%
Nonfarm nonresidential properties	74,644	51.45%	63,766	47.80%	58,722	45.83%	45,100	40.88%	38,196	36.13%
1-4 family residential first liens	6,973	4.81%	8,044	6.03%	7,165	5.59%	7,127	6.46%	8,261	7.81%
1-4 family residential junior liens	1,370	0.94%	937	0.70%	719	0.56%	2,671	2.42%	3,946	3.73%
1-4 family revolving credit	3,399	2.34%	1,516	1.14%	2,194	1.71%	753	0.68%	722	0.68%
Multifamily residential properties	12,498	8.61%	11,916	8.93%	9,448	7.37%	9,344	8.47%	8,105	7.67%
Farmland	741	0.51%	754	0.57%	767	0.60%	0	0.00%	0	0.00%
Total real estate	103,812	71.55%	90,584	67.91%	80,370	62.72%	71,141	64.48%	69,512	65.75%
Commercial	38,798	26.74%	40,899	30.66%	46,732	36.47%	38,248	34.67%	35,307	33.40%
Consumer	1,862	1.28%	1,521	1.14%	865	0.68%	638	0.58%	619	0.59%
Other	614	0.43%	406	0.29%	157	0.13%	286	0.27%	277	0.26%
Total gross loans	145,086	100.00%	133,410	100.00%	128,124	100.00%	110,313	100.00%	105,715	100.00%
Less allowance for loan losses	(1,962)		(1,851)		(1,732)		(2,064)		(2,524)	
Total net loans	\$143,124		\$131,559		\$126,392		\$108,249		\$103,191	

The following table shows the dollar amount of Loans outstanding at December 31, 2015, based upon classifications for regulatory Call Report purposes, which, based on remaining scheduled repayments of principal, were due in one (1) year or less, more than one (1) year through five (5) years, and more than five (5) years. Demand or other loans having no stated maturity and no stated schedule of repayments are reported as due in one (1) year or less. The table also presents fixed rate and floating rate loans as classified for regulatory purposes. For regulatory classification purposes, loans currently at their interest rate floor are considered “fixed” rate loans.

<u>Dollars in thousands</u>	<u>Maturity</u>			<u>Total</u>	<u>Rate Structure</u>	
	<u>One Year or Less</u>	<u>One through Five years</u>	<u>Over Five Years</u>		<u>Fixed Rate</u>	<u>Floating Rate</u>
Real Estate Secured by 1-4 Residential	\$1,899	\$ 2,743	\$ 2,331	\$ 6,973	\$ 4,148	\$ 2,825
All other loans	<u>42,417</u>	<u>47,196</u>	<u>48,834</u>	<u>138,447</u>	<u>27,104</u>	<u>111,009</u>
	44,316	49,939	51,165	145,420	31,252	113,834
Deferred loan fees				(334)		
Non-accrual loans	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
	<u>\$44,316</u>	<u>\$49,939</u>	<u>\$51,165</u>	<u>\$145,086</u>	<u>\$31,252</u>	<u>\$113,834</u>

Loans are placed on nonaccrual status when they are over 90 days past due, or sooner if weakness is recognized, unless the loan is adequately collateralized and is in the process of collection. No interest is taken into income unless received in cash or until such time as the borrower demonstrates an ability to resume payments of principal and interest. Interest previously accrued but not collected is reversed and charged against income at the time the loan is placed on nonaccrual status.

The following table presents our nonperforming assets at the dates included:

	<u>At December 31,</u>				
	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
	<i>(Dollars in thousands)</i>				
Nonaccrual loans not restructured	\$ 0	\$ 0	\$ 298	\$ 3,362	\$ 5,387
Restructured nonaccrual loans	0	0	0	0	0
Restructured performing loans	0	0	0	0	0
Loans 90 days past due and still accruing	0	422	0	0	0
Total non-performing loans (NPLs) and performing loans		422	298	3,362	5,387
Foreclosed real estate	<u>338</u>	<u>642</u>	<u>700</u>	<u>3,904</u>	<u>0</u>
Total non-performing assets (NPAs) and restructured performing loans	\$ 338	\$ 1,064	\$ 998	\$ 7,266	\$ 5,387
Total gross loans	\$145,086	\$133,410	\$128,124	\$110,313	\$105,715
Total assets	\$179,066	\$167,654	\$170,637	\$145,592	\$130,132
NPLs as a percentage of total gross loans	0.00%	0.32%	0.23%	3.05%	5.10%
NPAs as a percentage of total assets	0.19%	0.65%	0.58%	4.99%	4.14%

As of December 31, 2015, Commencement had potential problem loans of \$3.62 million. Potential problem loans consist of performing loans that have been internally risk classified due to uncertainties regarding the borrower’s ability to continue to comply with the contractual repayment terms of the loans. Although these loans have been identified as potential non-performing loans, they may never become delinquent, non-performing or impaired. As of December 31, 2015, none of these loans were past due. Additionally, these loans are generally secured by commercial real estate or other assets, thus reducing the

potential for loss should they become non-performing. Potential problem loans are considered in the determination of Commencement's ALLL.

Allowance for Loan and Lease Losses ("ALLL")

The ALLL is a valuation allowance for probable incurred credit losses. Loan losses are charged against the ALLL when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the ALLL. Management estimates the ALLL balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. Allocations to the ALLL may be made for specific loans, but the entire ALLL is available for any loan that, in management's judgment, should be charged off.

The ALLL consists of specific and general components. The specific component relates to loans that are individually classified as impaired. A loan is impaired when, based on current information and events, it is probable that Commencement will be unable to collect all amounts due according to the contractual terms of the loan agreement. Loans for which the terms have been modified resulting in a concession, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings and classified as impaired.

Commencement has identified the following loan portfolio segments: commercial & industrial, real estate – construction & land, real estate – other, real estate – HELOC and installment and other. Commercial loans are primarily underwritten based on the cash flows of the business operations and secured by assets being financed, such as accounts receivable, inventory, and equipment. Commercial real estate loans are primarily underwritten based on the cash flow of the borrower and its business and further secured by real estate. Collateral values may fluctuate based on the impact of economic conditions. Construction and land loans are loans generally originated for the development of commercial properties. All types of commercial loans may also come with personal guarantees of the borrowers and business owners. Consumer loans are generally dependent on the personal income of the consumer, and repayment is dependent on the borrowers' personal cash flow and employment status which can be affected by general economic conditions. Additionally, collateral values may fluctuate based on the impact of economic conditions on residential real estate values and other consumer type assets such as automobiles.

For all loan types, loans or portions of loans are charged off when there is a distinct probability of loss identified and management believes the uncollectibility of a loan balance is confirmed. A distinct probability of loss exists when it has been determined that any remaining sources of repayment are insufficient to cover all outstanding principal. The probable loss is immediately calculated based on the value of the remaining sources of repayment and charged to the ALLL.

Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

If a loan is impaired, a specific allowance is estimated based on the present value of estimated future cash flows using the loan's original note rate, or as a practical expedient based on the fair value of collateral less cost to sell if repayment is expected solely from the collateral.

Troubled debt restructurings are separately identified for impairment disclosures and are generally measured at the present value of estimated future cash flows using the loan's effective rate at inception. If a troubled debt restructuring is considered to be a collateral dependent loan, the specific allowance is estimated using the fair value of the collateral, less cost to sell. For troubled debt restructurings that subsequently default, Commencement determines the amount of reserve in accordance with the accounting policy for the ALLL.

The general component covers non-impaired loans and is based on historical loss experience adjusted for current factors and credit quality indicators (loan grades). The historical loss experience is based on the actual loss history experienced by Commencement and its peers for the trailing four quarters, supplemented with other economic factors based on the risks present. These economic factors include consideration of the following: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations.

The table below summarizes loans held for investment, average loans held for investment, nonperforming loans and changes in the ALLL arising from loan charge-offs, recoveries and additions to the allowance from provisions charged to operating expense:

	At or for the years ended December 31,				
	2015	2014	2013	2012	2011
	Amounts in thousands				
Total gross loans at end of period	\$145,086	\$133,410	\$128,124	\$110,313	\$105,715
Allowance for loan losses at end of period	<u>(1,962)</u>	<u>(1,851)</u>	<u>(1,732)</u>	<u>(2,064)</u>	<u>(2,524)</u>
Net loans at end of period	<u>\$143,124</u>	<u>\$131,559</u>	<u>\$126,392</u>	<u>\$108,249</u>	<u>\$103,191</u>
Non-performing loans at end of period	\$0	\$422	\$298	\$3,362	\$5,387
Average gross loans	\$142,201	\$130,739	\$116,405	\$105,701	\$97,194
Ratio of net-charge-offs to average gross loans	-0.16%	-0.06%	0.30%	-0.32%	0.09%
Allowance to total gross loans at end of period	1.35%	1.39%	1.35%	1.87%	2.39%
Allowance to nonperforming loans	N/A	438.63%	581.21%	61.39%	46.85%
Allowance at beginning of period	\$ 1,851	\$ 1,732	\$ 2,064	\$ 2,524	\$ 2,348
Loans charged-off					
Construction, land & land development	0	0	151	118	0
1-4 family residential	0	0	129	349	76
Multifamily	0	0	0	0	0
Commercial real estate	0	0	0	0	0
Commercial and industrial	0	150	58	59	13
Consumer and other	<u>0</u>	<u>0</u>	<u>100</u>	<u>0</u>	<u>0</u>
Total loans charged-off	0	150	438	526	89
Recoveries					
Construction, land & land development	0	0	0	0	0
1-4 family residential	0	97	0	0	0
Multifamily	0	0	0	0	0
Commercial real estate	0	0	0	0	0
Commercial and industrial	232	62	91	866	0
Consumer and other	<u>0</u>	<u>65</u>	<u>0</u>	<u>0</u>	<u>0</u>

	At or for the years ended December 31,				
	2015	2014	2013	2012	2011
	Amounts in thousands				
Total recoveries	232	224	91	866	0
Net loans charged-off	(232)	(74)	347	(340)	89
Provision for loan losses	<u>(121)</u>	<u>45</u>	<u>15</u>	<u>(800)</u>	<u>265</u>
Allowance at end of period	<u>\$ 1,962</u>	<u>\$ 1,851</u>	<u>\$ 1,732</u>	<u>\$ 2,064</u>	<u>\$ 2,524</u>
Net charge-offs (recoveries) to average loans	-0.16%	-0.06%	0.30%	-0.32%	0.09%
Provision for loan losses to average loans	-0.09%	0.03%	0.01%	-0.76%	0.27%
Allowance for loan losses to ending loans	1.35%	1.39%	1.35%	1.87%	2.39%

Commencement's reverse ALLL provision was (\$121) thousand in 2015, compared to an ALLL provision of \$45 thousand in 2014. The decrease was primarily due to net recoveries of \$232 thousand in 2015 and improvement in credit quality indicators. Commencement's allowance as a percentage of total loans decreased from 1.39% as of December 31, 2014 to 1.35% as of December 31, 2015.

The following table allocates the ALLL based on our judgment of inherent losses in the respective categories.

	Year Ended December 31,									
	2015		2014		2013		2012		2011	
	Allocation of the Allowance	Percent of Allocation to Total	Allocation of the Allowance	Percent of Allocation to Total	Allocation of the Allowance	Percent of Allocation to Total	Allocation of the Allowance	Percent of Allocation to Total	Allocation of the Allowance	Percent of Allocation to Total
	Amounts in thousands									
Commercial & land development	\$72	3.7%	\$123	6.6%	\$73	4.2%	\$136	6.6%	\$173	6.9%
1-4 family residential	143	7.3%	143	7.5%	307	17.7%	268	13.0%	162	6.4%
Multifamily	144	7.4%	137	7.4%	109	6.3%	146	7.1%	168	6.7%
Commercial real estate	930	47.4%	661	35.7%	615	35.5%	542	26.3%	439	17.4%
Commercial & industrial	490	25.0%	484	26.1%	461	26.6%	537	26.0%	824	32.6%
Consumer and other	4	0.2%	5	0.3%	58	3.3%	13	0.6%	6	0.2%
Unallocated	<u>179</u>	<u>9.1%</u>	<u>298</u>	<u>16.1%</u>	<u>109</u>	<u>6.3%</u>	<u>422</u>	<u>20.4%</u>	<u>752</u>	<u>29.8%</u>
	<u>\$1,962</u>	100.00%	<u>\$1,851</u>	100.00%	<u>\$1,732</u>	100.00%	<u>\$2,064</u>	100.00%	<u>\$2,524</u>	100.00%

Securities Activities

Commencement's investment securities portfolio consists primarily of residential mortgage backed securities ("MBS") and collateralized mortgage obligations ("CMO"). The balance of investment securities was \$3.39 million at December 31, 2015, compared to \$2.93 million at December 31, 2014.

At the end of 2015, the composition consisted of MBS and CMO debt securities at both fixed-rate and U.S. Libor floating rate. The portfolio also included Federal Home Loan Bank of Des Moines and Federal Reserve Bank of San Francisco equity securities. Such securities, totaling approximately \$1.0 million are carried at cost as they can only be redeemed by the issuer at a fixed price.

Commencement's total investment securities increased by \$458 thousand, or 15.6% during 2015, primarily as a result of additional purchases of securities due to the increase in deposits.

Asset and Liability Management

The principal goal of Commencement's interest rate risk management is to minimize the potential of adverse effects of material increases or decreases in interest rates on its results of operations. Commencement evaluates the inherent interest rate risk in certain balance sheet accounts in an effort to determine the acceptable level of interest rate risk exposure based on its business plan, operating environment, capital, liquidity requirements and performance objectives. Commencement's board of directors sets limits for earnings and equity at risk in order to reduce the potential vulnerability of Commencement's operations to changes in interest rates. Members of senior management coordinate asset and liability management consistent with Commencement's business plan and board approved policies and limits. Senior management establishes and monitors the volume and mix of assets and funding sources, taking into account relative costs and spreads, interest rate sensitivity and liquidity needs. The objectives are to manage assets and funding sources and to produce results that are consistent with liquidity, capital adequacy, growth, risk and profitability goals. Senior management periodically reports results to the Asset/Liability Committee of Commencement's board of directors.

Market Risk

One of Commencement's primary market risks is interest rate volatility due to the potential impact on net interest income and the market value of all interest-earning assets and interest-bearing liabilities. Market risk can also be adversely affected by the deterioration of the Washington real estate markets, which may adversely affect the security underlying commercial and construction loans made by Commencement.

Interest Rate Sensitivity

Interest rate sensitivity is a measure of the difference between amounts of interest-earning assets and interest-bearing liabilities that either re-price or mature within a given period of time. The difference, or the interest rate re-pricing "Gap," provides an indication of the extent by which an institution's interest rate spread will be affected by changes in interest rates. A Gap is considered positive when the amount of interest-rate sensitive assets exceeds the amount of interest-rate sensitive liabilities and is considered negative when the amount of interest-rate sensitive liabilities exceeds the amount of interest-rate sensitive assets. Generally, during a period of rising interest rates, a negative Gap within shorter maturities would adversely affect net interest income, while a positive Gap within shorter maturities would result in an increase in net interest income. During a period of falling interest rates, a negative Gap within shorter maturities would result in an increase in net interest income while a positive Gap within shorter maturities would have the opposite effect.

Since its inception in 2006, Commencement has generally attempted to maintain a balanced Gap position. On the funding side, Commencement seeks to maximize its core relationship-based commercial non-interest bearing and commercial interest-bearing deposits, with which it expects reduced rate sensitivity in a rising rate environment.

As a result of this balance sheet positioning, Commencement's cumulative 3 month to 12 month interest rate Gap ratio of rate sensitive assets to rate sensitive liabilities at December 31, 2015, was (4.09%), compared with (9.18%) at December 31, 2014.

To manage and measure earnings at risk, Commencement makes extensive use of financial forecast modeling and historical analysis in the formation of its balance sheet and interest rate risk management

strategies. The model uses management assumptions concerning the re-pricing of assets and liabilities under its forecasted interest rate scenario, as well as a detailed 1-year balance sheet forecast of projected business loan and deposit activity volumes, in addition to its non-interest income and expense assumptions.

Management's assumptions for the loan portfolio and pricing of Commencement's deposit products are based on management's review of past behavior of Commencement's depositors and borrowers in response to changes in the general market.

Liquidity and Capital Resources

Management believes that Commencement's cash flow should be sufficient to support its existing operations for the foreseeable future. If Commencement needs additional liquidity, it would be required to the extent possible to borrow or issue additional securities. Commencement may borrow on a short-term basis to compensate for reductions in other sources of funds. Commencement borrowings may also be used on a longer-term basis to support expanded lending activities and to match the maturity or re-pricing intervals of assets. Commencement's ability to incur indebtedness is limited by government regulations and its ability to service its borrowings. The payment of dividends by Commencement is subject to limitations imposed by law and governmental regulations.

At December 31, 2015, Commencement held cash and cash equivalents of \$25.3 million, as compared to \$25.8 million as of December 31, 2014, a decrease of \$500 thousand, while the balance of investment securities moderately increased by \$458 thousand from \$2.9 million at December 31, 2014 to \$3.4 million at December 31, 2015. The decrease in cash balances was primarily attributable to \$10 million net growth in deposits which was slightly less than the loan growth during the year. Between December 31, 2014 and December 31, 2015, total loans increased by \$11.7 million while total deposits increased by \$10 million.

As a result of its focus on relationship business banking and its concentration in the small to middle-market business sector for both loan growth and deposit funding, Commencement experiences a somewhat higher level of volatility in both activities compared to similar sized banks, primarily due to the larger average transaction size. Additionally, the acquisition period for the origination of small to middle-market loans and deposits has a longer cycle time, which can occasionally lead to a short-term mismatch between these two activities. Quite often, commercial business loan funding can precede the receipt of the related deposits, sometimes due to cash management complexities in the deposit accounts.

From its inception in 2006, Commencement has offset these increased volatility factors with its liquidity management practices including a combination of increased levels of cash and cash equivalent from balances, in addition to a variety and depth of borrowing resources. These borrowing arrangements include Federal Fund lines at three correspondent banks, with total available borrowing capacity of \$9.5 million as of December 31, 2015. Additionally, Commencement has a collateralized borrowing arrangement with the Federal Home Loan Bank of Des Moines with combined gross availability of \$66.8 million as of December 31, 2015. At December 31, 2015, borrowings outstanding from the FHLB totaled \$7.7 million, including an unadvanced Letter of Credit for \$4.5 million, with remaining borrowing capacity of approximately \$59.1 million. There were no additional borrowings outstanding as of December 31, 2015.

Total shareholders' equity increased to \$22.5 million at December 31, 2015, compared to \$21.5 million at December 31, 2014. The increase in shareholder's equity for 2015, was primarily the result of \$1.1 million in net income during 2015.

Commencement declared and paid a \$.07 cash dividend on Commencement stock in 2015. Commencement has not declared a dividend in 2016, and does not currently plan to do so.

Capital Ratios

Banks, like Commencement, are subject to regulatory capital requirements administered by federal and state banking agencies. Capital adequacy guidelines and prompt corrective action regulations involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions to shareholders and others are limited, as is asset growth and expansion, and capital restoration plans are required. Notwithstanding Commencement's well capitalized classification, state and federal regulatory agencies may require increased levels of capital based on their assessment of Commencement's loan portfolio, real estate concentration and related factors.

	Actual		Minimum Required for Capital Adequacy Purposes		Minimum Required to be Well-Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<i>(dollars in thousands)</i>						
<u>December 31, 2015</u>						
Total capital to risk-weighted assets	\$24,024	15.79%	\$12,170	8.00%	\$15,212	10.00%
Tier 1 capital to risk-weighted assets	\$22,118	14.54%	\$6,085	4.00%	\$9,127	6.00%
Tier 1 capital to average assets	\$22,118	11.70%	\$7,560	4.00%	\$9,450	5.00%
<u>December 31, 2014</u>						
Total capital to risk-weighted assets	\$23,154	17.54%	\$10,564	8.00%	\$13,204	10.00%
Tier 1 capital to risk-weighted assets	\$21,500	16.28%	\$5,282	4.00%	\$7,923	6.00%
Tier 1 capital to average assets	\$21,500	12.63%	\$6,807	4.00%	\$8,508	5.00%
<u>June 30, 2016</u>						
Total capital to risk-weighted assets	\$24,833	15.26%	\$13,020	8.00%	\$16,275	10.00%
Tier 1 capital to risk-weighted assets	\$22,796	14.01%	\$6,510	4.00%	\$9,765	6.00%
Tier 1 capital to average assets	\$22,796	12.59%	\$7,244	4.00%	\$9,055	5.00%
<u>June 15, 2015</u>						
Total capital to risk-weighted assets	\$23,490	14.79%	\$12,705	8.00%	\$15,881	10.00%
Tier 1 capital to risk-weighted assets	\$21,574	13.58%	\$6,352	4.00%	\$9,529	6.00%
Tier 1 capital to average assets	\$21,574	12.44%	\$6,936	4.00%	\$8,670	5.00%

Management believes that for all periods presented Commencement met all regulatory capital adequacy requirements to which it is subject.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF THURSTON

The following discussion should be read in conjunction with Thurston's financial statements and the accompanying notes included elsewhere in this joint proxy statement/offering memorandum. Thurston's future operating results may be affected by various trends and factors that are beyond its control. These include the factors set forth in "Risk Factors" and "A Warning About Forward Looking Statements." Accordingly, past results and trends may not be reliable indicators of future results or trends. *With the exception of historical information, the matters discussed below include forward-looking statements that involve risks and uncertainties. We caution readers that a number of important factors discussed below could affect Thurston's actual results and cause actual results to differ materially from those in the forward-looking statements.* **Information presented below as of or for the six-month periods ended June 30, 2016 and 2015, is unaudited and is subject to adjustments that could be made in the course of an audit.**

General

Thurston is a Washington state chartered bank that was incorporated on September 8, 2004, commenced operations on October 29, 2004, and since such date has been in continual operation in the state of Washington. Thurston reports its operations based upon a fiscal year beginning on the first day of January and ending on the last day of December.

At June 30, 2016, Thurston had total assets of approximately \$133.3 million, total liabilities of approximately \$120.5 million, total net loans of approximately \$72.9 million, total deposits of approximately \$115.6 million, and shareholders' equity of approximately \$12.8 million.

As of June 30, 2016, outstanding shares of Thurston Common Stock were held by 380 shareholders of record owning 1,353,724 shares. Thurston currently has 7,500,000 authorized shares of Thurston Common Stock. Additionally, Thurston has authorized 2,500,000 shares of Preferred Stock, none of which has been issued.

Financial Condition at June 30, 2016 and December 31, 2015

Assets

Thurston reported total assets of \$133.3 million as of June 30, 2016, compared to \$134.6 million as of December 31, 2015. This change was primarily due to a decrease in borrowings and a corresponding decrease in securities held by the Bank.

Cash and Cash Equivalents

Cash and cash equivalents totaled \$49.5 million at June 30, 2016, compared to \$42.6 million as of December 31, 2015. As Thurston grows its commercial business loan and deposit relationships, a higher level of cash is deemed appropriate to meet the cash needs of its customers.

Securities Available for Sale

Thurston's investment securities portfolio consists primarily of U.S. Agencies, residential mortgage backed securities ("MBS") guaranteed by agencies sponsored by the US government and corporate debt securities. Securities available for sale were \$6.7 million at June 30, 2016, compared to \$16.4 million as of December 31, 2015. Thurston decreased its securities portfolio during the first six months of 2016 for purposes of shortening portfolio duration and mitigating interest rate risk.

The following table presents the amortized cost and fair values of the “available for sale” investment securities portfolio for the dates presented.

	June 30,		December 31,			
	2016		2015		2014	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Securities available for sale						
U.S. Agency	\$ 3,897	57.92%	\$ 13,375	81.75%	\$ 12,287	81.84%
Mortgage-backed	2,831	42.08%	2,986	18.25%	2,726	18.16%
	<u>6,728</u>	<u>100.00%</u>	<u>16,361</u>	<u>100.00%</u>	<u>15,013</u>	<u>100.00%</u>

The following table presents the future maturities of securities as of the dates presented.

	June 30, 2016	
	Amount in thousands	
Maturity or repricing within one year	\$ 2,897	43.06%
Maturity or repricing in one to three years	-	0.00%
Maturity or repricing in three to five years	-	0.00%
Maturity or repricing after five years	<u>1,000</u>	<u>14.86%</u>
	<u>3,897</u>	<u>57.92%</u>
Mortgage-backed securities	<u>2,831</u>	<u>42.08%</u>
	<u>\$ 6,728</u>	<u>100.00%</u>

Thurston held only mortgage-backed securities at June 30, 2016. Expected maturities generally differ from contractual maturities because borrowers may have the right to call or prepay obligations, with or without call or prepayment penalties.

Loans (net of allowance for loan and lease losses (“ALLL”)) as of June 30, 2016 totaled \$72.9 million, compared to \$71.4 million as of December 31, 2015. This increase was primarily from Thurston’s continued growth in its commercial real estate loan portfolio and commercial loan portfolio from new and existing customers.

Leasehold Improvements and Equipment

Leasehold improvements and equipment were \$490 thousand (net of accumulated depreciation and amortization) as of June 30, 2016, compared to \$523 thousand as of December 31, 2015. There was no significant change in leasehold improvements or equipment during 2016.

Other Real Estate Owned

As of June 30, 2016 and December 31, 2015, Thurston had no other real estate owned.

Liabilities

Deposits

Thurston's deposits were \$115.6 million at June 30, 2016, compared to \$114.8 million as of December 31, 2015. Over this six-month period, Thurston grew its core deposit balance while allowing more rate sensitive time deposits to leave Thurston. As of June 30, 2016 and December 31, 2015, Thurston's non-interest bearing deposits as a percentage of total deposits increased to 31.2% from 26.6%, respectively. The following table sets forth Thurston's deposits at June 30, 2016, December 31, 2015 and December 31, 2014:

	<u>As of</u> <u>June 30,</u> <u>2016</u>	<u>As of</u> <u>December 31,</u> <u>2015</u> <u>2014</u>	
	(dollars in thousands)		
Interest-bearing liabilities			
Negotiable order of withdrawal	\$ 5,090	\$ 5,990	\$ 6,050
Savings deposits	1,702	1,486	1,038
Money market	42,431	45,064	40,300
Certificates of deposit \$100,000 or less	4,565	4,846	5,376
Certificates of deposit over \$100,000	<u>25,700</u>	<u>26,903</u>	<u>26,219</u>
 Total interest-bearing deposits	 79,488	 84,289	 78,983
 Noninterest-bearing deposits	 <u>36,065</u>	 <u>30,532</u>	 <u>22,933</u>
 Total deposits	 <u>\$ 115,553</u>	 <u>\$ 114,821</u>	 <u>\$ 101,916</u>

Thurston's scheduled maturities of certificates of deposit were as follows:

	<u>June 30, 2016</u>		<u>December 31, 2015</u>	
	<u>Amount in</u> <u>thousands</u>	<u>%</u>	<u>Amount in</u> <u>thousands</u>	<u>%</u>
Maturing within one year	\$ 20,409	67.43%	\$ 19,159	60.35%
One year up to three years	8,424	27.83%	10,327	32.53%
Three years and over	1,432	4.73%	2,263	7.13%
Total	<u>\$ 30,265</u>	100.00%	<u>\$ 31,749</u>	100.00%

Non-time deposits, which consist of checking, savings, money market, and negotiable order of withdrawal accounts totaled \$85.3 million, or 73.8% of deposits at June 30, 2016, compared to \$83.1 million, or 72.4% of deposits as of December 31, 2015. Time deposits were 26.2% of deposit balances as of June 30, 2016 and 27.6% of deposit balances as of December 31, 2015. The deposit portfolio mix was a result of increases in core deposit, primarily of money market and noninterest bearing balances.

Shareholder's Equity

Shareholder's equity was \$12.8 million as of June 30, 2016, compared to \$12.2 million as of December 31, 2015. The increase in shareholder's equity is primarily from Thurston's net income for the six months ended June 30, 2016.

Results of Operations for the Six Months Ended June 30, 2016 and June 30, 2015

Average Balances, Interest Income/Expense and Yield/Rates Paid

The following table sets forth Thurston's daily average balance sheet, related interest income or expense, and yield or rate paid for the six months ended June 30, 2016, and June 30, 2015.

	Six Months Ended Jun 30,					
	2016			2015		
	Average Balance	Interest	Average Yield or Cost	Average Balance	Interest	Average Yield or Cost
(Dollars in thousands)						
Interest-earning assets						
Securities⁽¹⁾						
Taxable	\$ 12,832	\$ 143	2.23%	\$ 15,644	\$ 180	2.30%
Tax-exempt	-	-	0.00%	-	-	0.00%
Total securities	<u>12,832</u>	<u>143</u>	2.23%	<u>15,644</u>	<u>180</u>	2.30%
Federal funds sold	1,443	3	0.42%	1,897	2	0.21%
Interest bearing deposits	38,809	221	1.14%	26,511	140	1.06%
Loans ⁽²⁾	75,536	1,989	5.27%	70,401	1,845	5.24%
Total interest-earning assets	<u>128,620</u>	<u>2,356</u>	3.66%	<u>114,453</u>	<u>2,167</u>	3.79%
Non-earning assets						
Cash and due from banks	2,322			1,981		
Allowance for loan losses	(983)			(964)		
Premises and equipment	521			568		
Foreclosed real estate	-			164		
Other assets	3,566			3,904		
Total non-earning assets	<u>5,426</u>			<u>5,653</u>		
Total assets	<u>\$ 134,046</u>			<u>\$ 120,106</u>		
Interest-bearing liabilities						
Transaction accounts	\$ 5,789	3	0.10%	\$ 4,892	2	0.08%
Savings deposits	44,574	63	0.28%	41,903	59	0.28%
Time deposits	30,764	175	1.14%	30,321	174	1.15%
Total interest-bearing deposits	<u>81,127</u>	<u>241</u>	0.59%	<u>77,116</u>	<u>235</u>	0.61%
Borrowings	5,325	63	2.37%	6,257	80	2.56%
Total interest-bearing liabilities	<u>86,452</u>	<u>304</u>	0.70%	<u>83,373</u>	<u>315</u>	0.76%
Noninterest-bearing deposits	34,793			24,447		
Other liabilities	233			302		
Total liabilities	<u>121,478</u>			<u>108,122</u>		
Stockholders' equity ⁽¹⁾	12,566			11,979		
Total liabilities and stockholders' equity	<u>\$ 134,044</u>			<u>\$ 120,101</u>		
Net interest income and margin ⁽³⁾		<u>\$ 2,052</u>	3.19%		<u>\$ 1,852</u>	3.24%
Net interest spread ⁽⁴⁾			2.96%			3.03%
Ratio of average interest-earning assets to average interest-bearing liabilities	148.78%			137.28%		

(1) Average balances exclude unrealized gains (losses) on securities available for sale of \$(85) and \$(209) for 2016 and 2015, respectively.

(2) Average loans are net of deferred loan fees and include non-accrual loans.

(3) Net interest margin is computed by dividing net interest income by total average earning assets.

(4) Net interest spread represents average yield earned on interest-earning assets less the average rate paid on interest-bearing liabilities.

Interest Income

The primary source of income for Thurston is interest income from its loans and investments. Interest income was \$2.36 million for the six-month period ended June 30, 2016, compared to \$2.17 million for the same period in 2015. This increase in interest income for the period ended June 30, 2016 was due to higher average balances of interest earning assets, partially offset by a decrease in the contractual interest rates on loans in the portfolio. The contractual loan rate decrease was a function of higher yielding loans paying off, new loans originated at lower interest rates, and reduced rates on refinanced loans.

Interest Expense

Interest expense was \$304 thousand for the six-month period ended June 30, 2016, compared to \$315 thousand for the same period in 2015. This decrease in interest expense for the period ended June 30, 2016 was due to a decrease in the average balance of borrowings, partially offset by an increase in the average balance of interest bearing deposits.

Net Interest Income

Net interest income is the difference between Thurston's interest income and interest expense. Net interest income was \$2.05 million for the six months ended June 30, 2016, compared to \$1.85 million for the same period in 2015. This change resulted primarily from higher average balances on loans, offset by higher average balances on deposits.

Net Interest Spread

Thurston's net interest spread (the average earning asset yield percentage less average deposit and borrowing cost percentage) was 2.96% for the six-month period ended June 30, 2016, compared to 3.03% for the six-month period ending June 30, 2015. The decrease in net interest spread is primarily due to lower yields on interest earning assets.

Provision / (Benefit) for Loan Losses

The provision for loan losses was \$0 for the six months ending June 30, 2016, compared to \$5 thousand for the same period in 2015.

Non-interest Income

Thurston's non-interest income consists primarily of service charges on deposit accounts, earnings on bank owned life insurance, gains on sale of loans, gains on the sale of securities, and other non-interest income. Non-interest income was \$98 thousand for the six-month period ended June 30, 2016, compared to \$96 thousand for the same period in 2015.

	Six Months Ended		Increase (Decrease)
	June 30,		
	2016	2015	
	(in thousands)		
Service charges on deposit accounts	\$ 32	\$ 32	\$ -
Earnings on Bank Owned Life Insurance	35	34	1
Credit and debit card	25	19	6
Gain (loss) on sale of foreclosed asserts	-	4	(4)
Other, including other gains (losses)	6	7	(1)
Total noninterest income	<u>\$ 98</u>	<u>\$ 96</u>	<u>\$ 2</u>

Non-interest Expense

Non-interest expense consists of salaries and related employee benefit costs, occupancy, equipment expense, data processing, depreciation, business development and certain other operating expenses. Non-interest expense was \$1.48 million for the six-month period ended June 30, 2016, compared to \$1.57 million for the same period in 2015. Please see the table below for non-interest expense by category.

	Six Months Ended		Increase (Decrease)
	June 30,		
	2016	2015	
	(in thousands)		
Salaries and employee benefits	\$ 780	\$ 824	\$ (44)
Occupancy and equipment	122	73	49
Data processing	237	203	34
Professional fees	58	74	(16)
Business and Occupation taxes	30	29	1
Advertising and marketing	59	72	(13)
Other	195	293	(98)
Total noninterest expense	<u>\$ 1,481</u>	<u>\$ 1,568</u>	<u>\$ (87)</u>

Provision for Income Taxes

The following table sets forth Thurston's provision for income taxes for the six-month periods ended June 30, 2016 and June 30, 2015, respectively. Thurston's effective tax rate differs from the federal statutory rate primarily due to state income taxes and low income housing tax credits.

The increase in the effective tax rate to 32.3% in 2016 from 30.1% in 2015 is primarily due to an increase in the marginal rate on higher income.

Six Months Ended

(dollars in thousands)	June 30, 2016	June 30, 2015
Tax provision	\$216	\$116
Effective tax rate	32.3%	30.1%

Net Income

Thurston reported net income of \$453 thousand for the six-month period ending June 30, 2016 and \$259 thousand for the same period in 2015. The higher net interest income was coupled with higher non-interest income and lower non-interest expense.

Financial Condition at December 31, 2015 and December 31, 2014.

Assets

Thurston reported total assets of \$134.6 million as of December 31, 2015, compared to \$119.9 million as of December 31, 2014. This increase in total assets was primarily driven by an increase in deposits and loan growth over the indicated time periods.

Cash and Cash Equivalents

Cash and cash equivalents totaled \$42.6 million at December 31, 2015, compared to \$29.5 million as of December 31, 2014. The change in cash and cash equivalent balances was a result of a similar increase in deposits.

Securities

Securities available for sale were \$16.4 million at December 31, 2015, compared to \$15.0 million as of December 31, 2014. Thurston increased its securities portfolio during 2015 as part of the overall growth of the Bank.

There were no securities held to maturity at December 31, 2015 and December 31, 2014.

The following table presents the amortized cost and fair values of the “available for sale” investment securities portfolio as of the years presented.

	December 31, 2015		December 31, 2014	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	Amount in thousands			
Securities available for sale				
U.S. Agency	\$ 13,530	\$ 13,375	\$ 12,570	\$ 12,287
Mortgage-backed	3,037	2,986	2,765	2,726
	\$ 16,567	\$ 16,361	\$ 15,335	\$ 15,013

The following table presents the future maturities of securities as of the years presented.

	December 31, 2015		December 31, 2014	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	Amount in thousands			
Maturity or repricing within one year	\$ 113	\$ 112	\$ 288	\$ 284
Maturity or repricing in one to three years	461	456	-	-
Maturity or repricing in three to five years	11,086	10,959	1,006	993
Maturity or repricing after five years	1,871	1,848	11,276	11,010
	<u>13,531</u>	<u>13,375</u>	<u>12,570</u>	<u>12,287</u>
 Mortgage-backed securities	 <u>3,036</u>	 <u>2,986</u>	 <u>2,765</u>	 <u>2,726</u>
	<u>\$ 16,567</u>	<u>\$ 16,361</u>	<u>\$ 15,335</u>	<u>\$ 15,013</u>

Loans

Loans (net of allowance for loan losses) as of December 31, 2015 were \$71.4 million compared to \$69.7 million as of December 31, 2014. In 2015, Thurston continued to grow its commercial real estate loan portfolio and commercial loan portfolio from new and existing customers.

Leasehold improvements and equipment

Leasehold improvements and equipment was \$523 thousand as of December 31, 2015, compared to \$569 thousand as of December 31, 2014.

Other Real Estate Owned

As of December 31, 2015, no other real estate owned was held by Thurston, compared to \$433 thousand as of December 31, 2014. This decrease in other real estate owned as of December 31, 2015, was the result of sales of foreclosed properties during 2015 at a loss of \$5 thousand.

Liabilities

Deposits

Thurston's deposits were \$114.8 million at December 31, 2015, compared to \$101.9 million as of December 31, 2014. The increase in deposits is mostly in non-interest bearing deposits and money market deposits. Please see changes in the deposit composition below.

The following table sets forth Thurston's deposits at December 31, 2015 and 2014, respectively.

	As of December 31,	
	2015	2014
	(dollars in thousands)	
Interest-bearing liabilities		
Negotiable order of withdrawal	\$ 5,990	\$ 6,050
Savings deposits	1,486	1,038
Money market	45,064	40,300
Certificates of deposit \$100,000 or less	4,846	5,376
Certificates of deposit over \$100,000	26,903	26,219
	<hr/>	<hr/>
Total interest-bearing deposits	84,289	78,983
	<hr/>	<hr/>
Noninterest-bearing deposits	30,532	22,933
	<hr/>	<hr/>
Total deposits	<u>\$ 114,821</u>	<u>\$ 101,916</u>

Thurston's scheduled maturities of certificates of deposit were as follows:

	December 31, 2015		December 31, 2014	
	Amount in thousands	%	Amount in thousands	%
Maturing within one year	\$ 19,159	60.35%	\$ 12,382	39.19%
One year up to three years	10,327	32.53%	14,046	44.46%
Three years and over	2,263	7.13%	5,167	16.35%
Total	<u>\$ 31,749</u>	100.00%	<u>\$ 31,595</u>	100.00%

Demand Deposits

Non-time deposits, which consist of checking, savings, money market, and negotiable order of withdrawals, totaled \$83.1 million, or 72.4% of deposits at December 31, 2015, compared to \$70.3 million, or 69.0% of deposits as of December 31, 2014. Time deposits were 27.6% of deposits balances in 2015 compared to 31.0% in 2014. The trend reflects Thurston's efforts to reduce rate sensitive time deposits and grow core deposits, which include non-interest bearing checking and money market accounts. Therefore, non-interest bearing deposits as a percentage of total deposits were 26.6% and 22.5% as of December 31, 2015 and as of December 31, 2014, respectively.

Shareholder's Equity

Shareholder's equity was \$12.2 million as of December 31, 2015, compared to \$11.6 million as of December 31, 2014.

Results of Operations for the years ended December 31, 2015 and December 31, 2014.

Average Balances, Interest Income/Expense and Yield/Rates Paid

The following table sets forth Thurston's daily average balance sheet, related interest income or expense, and rate received or paid for the periods presented.

	Years Ended December 31,					
	2015			2014		
	Average Balance	Interest	Average Yield/Cost	Average Balance	Interest	Average Yield or Cost
	(Dollars in thousands)					
Interest-earning assets						
Securities⁽¹⁾						
Taxable	\$ 16,126	\$ 353	2.19%	\$ 16,196	\$ 388	2.40%
Tax-exempt	-	-	0.00%	-	-	0.00%
Total securities	16,126	353	2.19%	16,196	388	2.40%
Federal funds sold	2,358	6	0.25%	880	2	0.23%
Interest bearing deposits	33,819	352	1.04%	21,394	209	0.98%
Loans ⁽²⁾	69,739	3,626	5.20%	70,931	4,131	5.82%
Total interest-earning assets	122,042	4,337	3.55%	109,401	4,730	4.32%
Non-earning assets						
Cash and due from banks	2,235			1,734		
Allowance for loan losses	(953)			(931)		
Premises and equipment	555			211		
Foreclosed real estate	-			951		
Other assets	3,883			4,125		
Total non-earning assets	5,720			6,090		
Total assets	\$ 127,762			\$ 115,491		
Interest-bearing liabilities						
Transaction accounts	\$ 5,128	5	0.10%	\$ 4,320	4	0.09%
Savings deposits	44,698	127	0.28%	42,558	121	0.28%
Time deposits	30,789	351	1.14%	31,547	417	1.32%
Total interest-bearing deposits	80,615	483	0.60%	78,425	542	0.69%
Federal funds purchased	433	-	0.00%	675	1	0.15%
Other borrowings	5,350	152	2.84%	6,286	185	2.94%
Total interest-bearing liabilities	86,398	635	0.73%	85,386	728	0.85%
Noninterest-bearing deposits	28,961			18,232		
Other liabilities	295			304		
Total liabilities	115,654			103,922		
Stockholders' equity ⁽¹⁾	12,103			11,529		
Total liabilities and stockholders' equity	\$ 127,757			\$ 115,451		
Net interest income and margin ⁽³⁾		\$ 3,702	3.03%		\$ 4,002	3.66%
Net interest spread ⁽⁴⁾			2.82%			3.47%
Ratio of average interest-bearing assets to average interest-earning liabilities	141.26%			128.13%		

(1) Average balances exclude unrealized gains (losses) on securities available for sale of \$(208) and \$(777) for 2015 and 2014, respectively.

(2) Average loans are net of deferred loan fees and include non-accrual loans.

(3) Net interest margin is computed by dividing net interest income by total average earning assets.

(4) Net interest spread represents average yield earned on interest-earning assets less the average rate paid on interest-bearing liabilities.

Interest Income

The primary source of income for Thurston is interest income. Interest income was \$4.34 million for the year ended December 31, 2015 compared to \$4.73 million for the same period in 2014. The decrease in interest income in 2015 was due to lower average yields on interest earning assets which were partially offset by an increase in the average outstanding loans in the portfolio.

Interest Expense

Interest expense was \$635 thousand for the year ended December 31, 2015, compared to \$728 thousand for the same period in 2014. The change between the two periods was due to lower rates on interest bearing liabilities, partially offset by higher outstanding balances of deposit accounts.

Net Interest Income

Net interest income is the difference between Thurston's interest earned and interest expenses paid for deposits and borrowings. Net interest income was \$3.70 million for year ended December 31, 2015, compared to \$4.00 million for the same period in 2014. The decrease in net interest income in 2015 reflects the combined effect of the reduced earning rates on assets which were partially offset by reduced costs of liabilities.

Net Interest Spread

Thurston's net interest spread (the average yield on interest earning assets less rates paid on interest bearing liabilities) was 2.82% for the period ended December 31, 2015 compared to 3.47% for the period ended December 31, 2014. The decrease in net interest spread from 2014 to 2015 is because the yields on interest earning assets decreased to a greater degree than the rate paid for deposits and borrowings, as more of Thurston's interest earning assets were in loans.

Provision for/ (Benefit) Loan Losses

The provisions for loan losses was \$5 thousand for the year ended December 31, 2015 compared to a provision for loan losses of \$130 thousand for year ended December 31, 2014. The decrease in the provision from 2014 to 2015 reflected net recoveries experienced in 2015 and the stronger loan growth and overall improvement in credit quality. There were \$95 thousand in charge-offs during 2015 and \$236 thousand in charge-offs of in 2014. There were recoveries of \$101 thousand and \$239 thousand for the years ended December 31, 2015 and 2014, respectively.

Non-interest Income

Thurston's non-interest income consists primarily of service charges on deposit accounts, earnings on bank owned life insurance, gains on the sale of loan, gains on the sale of securities, and other non-interest income. Non-interest income was \$182 thousand for the year ended December 31, 2015, compared to \$97 thousand for the same period in 2014.

	<u>Years Ended December 31,</u>		Increase (Decrease)
	<u>2015</u>	<u>2014</u>	
	(in thousands)		
Service charges on deposit accounts	\$ 64	\$ 67	\$ (3)
Earnings on Bank Owned Life Insurance	69	67	2
Credit and debit card	42	29	13
Gain (loss) on sale of foreclosed asserts	(5)	(97)	92
Other, including other gains (losses)	12	31	(19)
Total noninterest income	<u>\$ 182</u>	<u>\$ 97</u>	<u>\$ 85</u>

Non-interest Expense

Non-interest expense consists of salaries and related employee benefit costs, occupancy, equipment expense, data processing, depreciation, business development and certain other operating expenses, including expenses related to other real estate owned. Non-interest expense was \$3.12 million for the year ending December 31, 2015, compared to \$3.06 million for the year ended December 31, 2014. The increase in non-interest expense in 2015 came from expansion of staff and other resources to support Thurston's growth of its customer base.

	<u>Years Ended December 31,</u>		Increase (Decrease)
	<u>2015</u>	<u>2014</u>	
	(in thousands)		
Salaries and employee benefits	\$ 1,576	\$ 1,440	\$ 136
Occupancy and equipment	197	175	22
Data processing	417	397	20
Professional fees	173	261	(88)
Business and Occupation taxes	57	58	(1)
Advertising and marketing	167	173	(6)
Other	530	551	(21)
Total noninterest expense	<u>\$ 3,117</u>	<u>\$ 3,055</u>	<u>\$ 62</u>

Provision for Income Taxes

The following table sets forth Thurston's provision for income taxes for the years ended December 31, 2015 and 2014. The decrease in effective tax rate from 2014 to 2015 was primarily due to an increase in the benefits from low income housing tax credits.

(dollars in thousands)	For the Year Ended December 31,	
	2015	2014
Tax provision	\$511	\$400
Effective tax rate	31.0%	31.6%

The effective tax rate differed from the Federal Statutory rate primarily due to tax-free bank owned life insurance earnings.

Net Income

Thurston reported a net income of \$526 thousand for the year ended December 31, 2015, compared to net income of \$625 thousand for the year ended December 31, in 2014. The decrease in net income from 2014 to 2015 is primarily due to lower interest income and higher non-interest expense, partially offset by higher non-interest income.

Loan Portfolio Composition

Overall, management believes that Thurston's loan portfolio quality is indicative of the general economic condition of western Washington and more specifically, the Olympia Area where the majority of Thurston's loans are originated. In order to maintain the quality of its loan portfolio, Thurston follows aggressive loan grading policies that have been developed by management and approved by Thurston's board of directors in light of applicable regulations. Thurston also pursues an aggressive collection policy with respect to loans that have fallen into nonaccrual status. On a regular basis, Thurston engages a third party to review its loan portfolio in light of applicable regulations so that Thurston can assess and correct any deficiencies.

The following table sets forth the amount of our loans outstanding at the dates indicated.

	2015		2014		December 31, 2013		2012		2011	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
<i>Dollars in thousands</i>										
Real Estate										
Construction, land and land development	\$ 1,419	1.96%	\$ 3,387	4.80%	\$ 3,236	4.66%	\$ 4,493	6.27%	\$ 6,416	7.94%
Nonfarm nonresidential properties	22,393	30.95%	19,893	28.18%	20,704	29.79%	19,917	27.80%	21,961	27.17%
1-4 family residential first liens	596	0.82%	594	0.84%	832	1.20%	1,006	1.40%	1,740	2.15%
1-4 family residential junior liens	671	0.93%	1,181	1.67%	1,303	1.88%	3,382	4.72%	4,083	5.05%
1-4 family revolving credit	520	0.72%	160	0.23%	237	0.34%	67	0.09%	88	0.11%
Multifamily residential properties	4,850	6.70%	4,230	5.99%	3,877	5.58%	2,772	3.87%	2,629	3.25%
Farmland	1,397	1.93%	1,543	2.19%	1,576	2.27%	1,435	2.00%	1,458	1.80%
Total real estate	31,846	44.01%	30,988	43.90%	31,765	45.72%	33,072	46.15%	38,375	47.47%
Commercial	40,511	55.99%	39,601	56.10%	37,643	54.17%	38,552	53.81%	35,931	44.46%
Consumer	-	0.00%	3	0.00%	83	0.12%	24	0.03%	-	0.00%
Other	-	0.00%	-	0.00%	-	-0.01%	-	0.01%	6,511	8.07%
Total gross loans	72,357	100.00%	70,592	100.00%	69,491	100.00%	71,648	100.00%	80,817	100.00%
Less allowance for loan losses	(948)		(937)		(804)		(895)		(1,877)	
Total net loans	\$ 71,409		\$ 69,655		\$ 68,687		\$ 70,753		\$ 78,940	

The following table shows the dollar amount of Loans outstanding at December 31, 2015, based upon classifications for regulatory Call Report purposes, which, based on remaining scheduled repayments of principal, were due in one year or less, more than one year through five years, and more than five years. Demand or other loans having no stated maturity and no stated schedule of repayments are reported as due in one year or less. The table also presents fixed rate and floating rate loans as classified for regulatory purposes. For regulatory classification purposes, loans currently at their interest rate floor are considered “fixed” rate loans.

<i>Dollars in thousands</i>	Maturity				Rate Structure	
	One Year or Less	One through Five Years	Over Five Years	Total	Fixed Rate	Floating Rate
Real Estate Secured by 1-4 Residential	\$ -	\$ 556	\$ 40	\$ 596	\$ 1,190	\$ 597
All other loans	7,447	23,300	39,256	70,003	51,774	17,038
	<u>7,447</u>	<u>23,856</u>	<u>39,296</u>	<u>70,599</u>	<u>52,964</u>	<u>17,635</u>
Deferred loan fees				(121)	(93)	(28)
Non-accrual loans	1,879	-	-	1,879	1,879	
	<u>1,879</u>	<u>-</u>	<u>-</u>	<u>1,879</u>	<u>1,879</u>	<u>-</u>
	<u>\$ 9,326</u>	<u>\$ 23,856</u>	<u>\$ 39,296</u>	<u>\$ 72,357</u>	<u>\$ 54,750</u>	<u>\$ 17,607</u>

Loans are placed on nonaccrual status when they are over 90 days past due, or sooner if weakness is recognized, unless the loan is adequately collateralized and is in the process of collection. No interest is taken into income unless received in cash or until such time as the borrower demonstrates an ability to resume payments of principal and interest. Interest previously accrued but not collected is reversed and charged against income at the time the loan is placed on nonaccrual status.

The following table presents our nonperforming assets at the dates indicated:

	December 31,				
	2015	2014	2013	2012	2011
	(Dollars in thousands)				
Nonaccrual loans	\$ 1,879	\$ 877	\$ 924	\$ 2,696	\$ 5,616
Restructured nonaccrual loans	-	-	-	-	-
Restructured performing loans	\$ 1,117	\$ -	\$ -	\$ -	\$ -
Loans 90 days past due and still accruing	-	-	-	1,103	57
Total non-performing loans (NPLs) and performing loans	<u>2,996</u>	<u>877</u>	<u>924</u>	<u>3,799</u>	<u>5,673</u>
Foreclosed real estate	<u>-</u>	<u>433</u>	<u>1,469</u>	<u>1,210</u>	<u>1,323</u>
Total non-performing assets (NPAs) and restructured performing loans	<u>\$ 2,996</u>	<u>\$ 1,310</u>	<u>\$ 2,393</u>	<u>\$ 5,009</u>	<u>\$ 6,996</u>
Total gross loans	\$ 72,357	\$ 70,592	\$ 69,491	\$ 71,648	\$ 80,817
Total assets	\$ 134,620	\$ 119,864	\$ 111,742	\$ 111,673	\$ 105,613
NPLs as a percentage of total gross loans	4.14%	1.24%	1.33%	5.30%	7.02%
NPAs as a percentage of total assets	2.23%	1.09%	2.14%	4.49%	6.62%

As of December 31, 2015, Thurston had potential problem loans of \$6.57 million. Potential problem loans consist of performing loans that have been internally risk classified due to uncertainties regarding the borrower's ability to continue to comply with the contractual repayment terms of the loans. Although these loans have been identified as potential non-performing loans, they may never become delinquent, non-performing or impaired. As of December 31, 2015, none of these loans were past due. Additionally, these loans are generally secured by commercial real estate or other assets, thus reducing the potential for loss should they become non-performing. Potential problem loans are considered in the determination of Thurston's ALLL.

Allowance for Loan Losses

The allowance for loan losses ("ALLL") is a valuation allowance for probable incurred credit losses. Loan losses are charged against the ALLL when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the ALLL. Management estimates the ALLL balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. Allocations to the ALLL may be made for specific loans, but the entire ALLL is available for any loan that, in management's judgment, should be charged off.

The ALLL consists of specific and general components. The specific component relates to loans that are individually classified as impaired. A loan is impaired when, based on current information and events, it is probable that Thurston will be unable to collect all amounts due according to the contractual terms of the loan agreement. Loans for which the terms have been modified resulting in a concession, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings and classified as impaired.

Thurston has identified the following loan portfolio segments: commercial & industrial, real estate – construction & land, real estate - other, real estate – HELOC and installment and other. Thurston's portfolio segments are also the class at which management monitors and assesses credit risk. Commercial loans are primarily underwritten based on the cash flows of the business operations and secured by assets being financed, such as accounts receivable, inventory, and equipment. Commercial real estate loans are primarily underwritten based on the cash flow of the borrower and its business and further secured by real estate. Collateral values may fluctuate based on the impact of economic conditions. Construction and land loans are loans generally originated for the development of commercial properties. All types of commercial loans may also come with personal guarantees of the borrowers and business owners. Consumer loans are generally dependent on the personal income of the consumer, and repayment is dependent on the borrowers' personal cash flow and employment status which can be affected by general economic conditions. Additionally, collateral values may fluctuate based on the impact of economic conditions on residential real estate values and other consumer type assets such as automobiles.

For all classes, loans or portions of loans are charged off when there is a distinct probability of loss identified and management believes the uncollectibility of a loan balance is confirmed. A distinct probability of loss exists when it has been determined that any remaining sources of repayment are insufficient to cover all outstanding principal. The probable loss is immediately calculated based on the value of the remaining sources of repayment and charged to the ALLL.

Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the

length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

If a loan is impaired, a specific allowance is estimated based on the present value of estimated future cash flows using the loan's original note rate, or as a practical expedient based on the fair value of collateral less cost to sell if repayment is expected solely from the collateral.

Troubled debt restructurings are separately identified for impairment disclosures and are generally measured at the present value of estimated future cash flows using the loan's effective rate at inception. If a troubled debt restructuring is considered to be a collateral dependent loan, the specific allowance is estimated using the fair value of the collateral less cost to sell. For troubled debt restructurings that subsequently default, Thurston determines the amount of reserve in accordance with the accounting policy for the ALLL.

The general component covers non-impaired loans and is based on historical loss experience adjusted for current factors and credit quality indicators (loan grades). The historical loss experience is based on the actual loss history experienced by Thurston and its peers for the trailing four quarters, supplemented with other economic factors based on the risks present. These economic factors include consideration of the following: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations.

The table below summarizes loans held for investment, average loans held for investment, nonperforming loans and changes in the ALLL arising from loan charge-offs, recoveries and additions to the allowance from provisions charged to operating expense:

	At or for the years ended December 31,				
	2015	2014	2013	2012	2011
	Amounts in thousands				
Total gross loans at end of period	\$ 72,357	\$ 70,592	\$ 69,491	\$ 71,648	\$ 80,817
Allowance for loan losses at end of period	(948)	(937)	(804)	(895)	(1,877)
Net loans at end of period	<u>\$ 71,409</u>	<u>\$ 69,655</u>	<u>\$ 68,687</u>	<u>\$ 70,753</u>	<u>\$ 78,940</u>
Non-performing loans at end of period	\$ 1,879	\$ 877	\$ 924	\$ 3,799	\$ 5,673
Average gross loans	\$ 69,739	\$ 70,931	\$ 68,917	\$ 74,706	\$ 85,190
Ratio of net charge-offs to average gross loans	-0.01%	0.00%	0.23%	1.98%	1.78%
Allowance to total gross loans at end of period	1.31%	1.33%	1.16%	1.25%	2.32%
Allowance to nonperforming loans	50.45%	106.84%	87.01%	23.56%	33.09%
Allowance at beginning of period	\$ 937	\$ 804	\$ 895	\$ 1,877	\$ 1,379
Loans charged-off					
Construction, land & land development	48	236	135	537	999
1-4 family residential	-	-	-	-	45
Multifamily	-	-	-	-	-
Commercial real estate	-	-	157	367	163
Commercial and industrial	47	-	122	563	-
Consumer and other	-	-	-	68	500
Total loans charged-off	<u>95</u>	<u>236</u>	<u>414</u>	<u>1,535</u>	<u>1,707</u>
Recoveries					
Construction, land & land development	12	186	15	17	-
1-4 family residential	-	-	-	-	-
Multi-family	-	-	-	-	-
Commercial real estate	12	47	1	4	-
Commercial and industrial	77	6	237	1	-
Consumer and other	-	-	-	31	188
Total recoveries	<u>101</u>	<u>239</u>	<u>253</u>	<u>53</u>	<u>188</u>
Net loans charged-off	(6)	(3)	161	1,482	1,519
Provision for loan losses	<u>5</u>	<u>130</u>	<u>70</u>	<u>500</u>	<u>2,017</u>
Allowance at end of period	<u>\$ 948</u>	<u>\$ 937</u>	<u>\$ 804</u>	<u>\$ 895</u>	<u>\$ 1,877</u>
Net charge-offs (recoveries) to average loans	-0.01%	0.00%	0.23%	1.98%	1.78%
Provision for loan losses to average loans	0.01%	0.18%	0.10%	0.67%	2.37%
Allowance for loan losses to ending loans	1.31%	1.33%	1.16%	1.25%	2.32%

Thurston's provision for loan losses was \$5 thousand in 2015, compared to a provision for loan losses of \$130 thousand in 2014. The decrease in the provision for loan and lease losses was primarily due to net recoveries of \$232 thousand in 2015 and improvement in credit quality indicators. Thurston's allowance as a percentage of total loans decreased from 1.31% as of December 31, 2014 to 1.33% as of December 31, 2015.

The following table allocates the ALLL based on our judgment of inherent losses in the respective categories.

	At December 31,									
	2015		2014		2013		2012		2011	
	Allocation of the Allowance	Percent of Allocation to Total	Allocation of the Allowance	Percent of Allocation to Total	Allocation of the Allowance	Percent of Allocation to Total	Allocation of the Allowance	Percent of Allocation to Total	Allocation of the Allowance	Percent of Allocation to Total
	Amounts in thousands									
Construction, land & land developm	\$ 214	22.6%	\$ 328	35.0%	\$ 208	25.9%	\$ 260	29.1%	\$ 215	11.5%
1-4 family residential	22	2.3%	18	1.9%	50	6.2%	39	4.4%	38	2.0%
Multifamily	67	7.1%	62	6.6%	51	6.3%	103	11.5%	55	2.9%
Commercial real estate	299	31.5%	256	27.3%	294	36.6%	311	34.7%	188	10.0%
Commercial and industrial	276	29.1%	193	20.6%	160	19.9%	134	15.0%	914	48.7%
Consumer and other	34	3.6%	32	3.4%	32	4.0%	37	4.1%	225	12.0%
Unallocated	36	3.8%	48	5.1%	9	1.1%	11	1.2%	242	12.9%
	<u>\$ 948</u>	<u>100.00%</u>	<u>\$ 937</u>	<u>100.00%</u>	<u>\$ 804</u>	<u>100.00%</u>	<u>\$ 895</u>	<u>100.00%</u>	<u>\$ 1,877</u>	<u>100.00%</u>

Securities Activities

Thurston's investment securities portfolio consists primarily of residential mortgage backed securities ("MBS") and U.S. Government Agency obligations. The balance of investment securities was \$16.4 million at December 31, 2015, compared to \$15.0 million at December 31, 2014.

At the end of 2015, the composition consisted of MBS and Collateralized Mortgage Obligation debt securities at both fixed-rate and U.S. Libor floating rate. The portfolio also included Federal Home Loan Bank of Des Moines and Federal Reserve Bank of San Francisco equity securities. Such securities, totaling approximately \$625 thousand are carried at cost as they can only be redeemed by the issuer at a fixed price.

Thurston's total investment securities increased by \$1.3 million, or 9.0% during 2015, primarily as a result of additional purchases of securities due to the increase in deposits.

Asset and Liability Management

The principal goal of Thurston's interest rate risk management is to minimize the potential of adverse effects of material increases or decreases in interest rates on its results of operations. Thurston evaluates the inherent interest rate risk in certain balance sheet accounts in an effort to determine the acceptable level of interest rate risk exposure based on its business plan, operating environment, capital, liquidity requirements and performance objectives. Thurston's board of directors sets limits for earnings and equity at risk in order to reduce the potential vulnerability of Thurston's operations to changes in interest rates. Members of senior management coordinate asset and liability management consistent with Thurston's business plan and board approved policies and limits. Senior management establishes and monitors the volume and mix of assets and funding sources, taking into account relative costs and spreads, interest rate sensitivity and liquidity needs. The objectives are to manage assets and funding sources and

to produce results that are consistent with liquidity, capital adequacy, growth, risk and profitability goals. Senior management periodically reports results to the Asset/Liability Committee of Thurston's board of directors.

Market Risk

One of Thurston's primary market risks is interest rate volatility due to the potential impact on net interest income and the market value of all interest-earning assets and interest-bearing liabilities. Market risk can also be adversely affected by the deterioration of the Washington real estate markets, which may adversely affect the commercial and construction loans made by Thurston.

Interest Rate Sensitivity

Interest rate sensitivity is a measure of the difference between amounts of interest-earning assets and interest-bearing liabilities that either re-price or mature within a given period of time. The difference, or the interest rate re-pricing "Gap," provides an indication of the extent by which an institution's interest rate spread will be affected by changes in interest rates. A Gap is considered positive when the amount of interest-rate sensitive assets exceeds the amount of interest-rate sensitive liabilities and is considered negative when the amount of interest-rate sensitive liabilities exceeds the amount of interest-rate sensitive assets. Generally, during a period of rising interest rates, a negative Gap within shorter maturities would adversely affect net interest income, while a positive Gap within shorter maturities would result in an increase in net interest income. During a period of falling interest rates, a negative Gap within shorter maturities would result in an increase in net interest income while a positive Gap within shorter maturities would have the opposite effect.

Since its inception in 2006, Thurston has consistently maintained a positive Gap and overall asset sensitive position, primarily due to its concentration in floating rate commercial and industrial loans and further by instituting a policy of originating most of these short-term (one-year) Prime rate based, lines of credit at a "rate floor", which naturally reduces the exposure to falling rates while allowing upward change with increases in the Prime rate of interest. On the funding side, Thurston seeks to maximize its core relationship-based commercial non-interest bearing and commercial interest-bearing deposits, with which it expects reduced rate sensitivity in a rising rate environment.

As a result of this balance sheet positioning, Thurston's cumulative 3 month to 12 month interest rate Gap ratio of rate sensitive assets to rate sensitive liabilities at December 31, 2015, was 146%, compared with 193% at December 31, 2014.

To manage and measure earnings at risk, Thurston makes extensive use of financial forecast modeling and historical analysis in the formation of its balance sheet and interest rate risk management strategies. The model uses management assumptions concerning the re-pricing of assets and liabilities under its forecasted interest rate scenario, as well as a detailed 1-year balance sheet forecast of projected business loan and deposit activity volumes, in addition to its non-interest income and expense assumptions.

Management's assumptions for the loan portfolio and pricing of Thurston's deposit products are based on management's review of past behavior of Thurston's depositors and borrowers in response to changes in the general market.

Liquidity and Capital Resources

Management believes that Thurston's cash flow should be sufficient to support its existing operations for the foreseeable future. If Thurston needs additional liquidity, it would be required to the

extent possible to borrow or issue additional securities. Thurston may borrow on a short-term basis to compensate for reductions in other sources of funds. Thurston borrowings may also be used on a longer-term basis to support expanded lending activities and to match the maturity or re-pricing intervals of assets. Thurston's ability to incur indebtedness is limited by government regulations and its ability to service its borrowings. The payment of dividends by Thurston is subject to limitations imposed by law and governmental regulations.

At December 31, 2015, Thurston held cash and cash equivalents of \$42.6 million, as compared to \$29.5 million as of December 31, 2014, an increase of \$13.1 million, while the balance of investment securities moderately increased by \$1.3 million from \$15.0 million at December 31, 2014, to \$16.4 million at December 31, 2015. The increase in cash balances was primarily attributable to approximately \$13 million net growth in deposits which was less than the loan growth during the year. Between December 31, 2014, and December 31, 2015, total loans increased by \$1.77 million while total deposits increased by \$12.9 million.

As a result of its focus on relationship business banking and its concentration in the middle-market business sector for both loan growth and deposit funding, Thurston experiences a somewhat higher level of volatility in both activities compared to similar sized banks, primarily due to the larger average transaction size. Additionally, the acquisition period for the origination of middle-market loans and deposits has a longer cycle time, which can occasionally lead to a short-term mismatch between these two activities. Quite often, commercial business loan funding can precede the receipt of the related deposits, sometimes due to cash management complexities in the deposit accounts.

From its inception in 2004, Thurston has offset these increased volatility factors with its liquidity management practices including a combination of increased levels of cash and cash equivalent from balances, in addition to a variety and depth of borrowing resources. These borrowing arrangements include Federal Fund lines at three correspondent banks, with total available borrowing capacity of \$2.9 million as of December 31, 2015. Additionally, Thurston has a collateralized borrowing arrangements with the Federal Home Loan Bank of Des Moines with gross availability of \$17.7 million as of December 31, 2015. At December 31, 2015, borrowings outstanding from the FHLB totaled \$7.3 million with remaining borrowing capacity of approximately \$10.4 million. There were no additional borrowings outstanding as of December 31, 2015.

Total shareholders' equity increased to \$12.2 million at December 31, 2015, compared to \$11.6 million at December 31, 2014. The increase in shareholder's equity for 2015, was primarily the result of \$526 thousand in net income during 2015.

Thurston has not declared a dividend, and does not currently plan to do so.

Capital Ratios

Banks, like Thurston, are subject to regulatory capital requirements administered by federal and state banking agencies. Capital adequacy guidelines and prompt corrective action regulations involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions to shareholders and others

are limited, as is asset growth and expansion, and capital restoration plans are required. Notwithstanding Thurston's well capitalized classification, state and federal regulatory agencies may require increased levels of capital based on their assessment of Thurston's loan portfolio, real estate concentration and related factors.

	Actual		Minimum Required for Capital Adequacy Purposes		Minimum Required to be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<i>(dollars in thousands)</i>						
December 31, 2015						
Total capital to risk weighted assets	\$ 12,749	21.78%	4,682	8.00%	5,852	10.00%
Tier 1 capital to risk-weighted assets	\$ 12,012	20.53%	2,341	4.00%	3,511	6.00%
Tier 1 capital to average assets	\$ 12,012	8.81%	5,452	4.00%	6,815	5.00%
December 31, 2014						
Total capital to risk weighted assets	\$ 12,157	22.03%	4,414	8.00%	5,517	10.00%
Tier 1 capital to risk-weighted assets	\$ 11,464	20.78%	2,207	4.00%	3,310	6.00%
Tier 1 capital to average assets	\$ 11,464	9.79%	4,685	4.00%	5,856	5.00%
June 30, 2016						
Total capital to risk weighted assets	\$ 13,351	23.21%	4,603	8.00%	5,753	10.00%
Tier 1 capital to risk-weighted assets	\$ 12,626	21.95%	2,301	4.00%	3,452	6.00%
Tier 1 capital to average assets	\$ 12,626	9.44%	5,350	4.00%	6,688	5.00%
June 15, 2015						
Total capital to risk weighted assets	\$ 12,322	22.21%	4,438	8.00%	5,547	10.00%
Tier 1 capital to risk-weighted assets	\$ 11,622	20.95%	2,219	4.00%	3,328	6.00%
Tier 1 capital to average assets	\$ 11,622	9.74%	4,772	4.00%	5,965	5.00%

Management believes that for all periods presented Thurston met all regulatory capital adequacy requirements to which it is subject.

**BENEFICIAL OWNERSHIP BY MANAGEMENT OF THE COMMON STOCK OF
THURSTON, COMMENCEMENT AND THE RESULTING BANK**

Thurston

The following table sets forth the beneficial ownership of Thurston Common Stock as of August 15, 2016 by (i) each person or entity who is known by Thurston to beneficially own more than 5% of the outstanding shares of Thurston Common Stock, (ii) each director of Thurston, (iii) Thurston's executive officers, and (iv) all directors and executive officers of Thurston as a group. The address of each listed shareholder is the same as the address of Thurston.

The percentage of beneficial ownership is calculated in relation to the 1,353,724 shares of Thurston Common Stock that were issued and outstanding as of August 15, 2016. There are no Thurston stock options outstanding. Subject to the voting agreements entered into with Commencement in connection with the Merger (see "*Thurston Special Meeting – Voting Agreements*"), the persons or entities identified in the table below have sole voting and investment power with respect to all shares shown as beneficially owned by them.

<u>Name</u>	<u>Title</u>	<u>Amount of Beneficial Ownership</u>	<u>Percentage of Outstanding Shares of Common Stock Beneficially Owned⁽¹⁾</u>
5% Shareholders			
	N/A	N/A	N/A
Executive Officers			
James H. Haley ⁽²⁾	President and Chief Executive Officer	23,600	1.74%
Tom Dhamers	SVP and Chief Financial Officer	11,500	*%
Directors			
Stephen J. Bean	Director	22,800 ⁽³⁾	1.68%
Kenneth W. Anderson	Director	11,000	*%
Cheryl L. Duryea	Director	10,500	*%
Ruthann Panowicz Goularte	Director	11,360	*%
Raymond LaForge	Director	13,000 ⁽⁴⁾	*%
David Owens, M.D.	Director	27,000	1.99%
Raymond A. Peters	Director	0	*%
Rob C. Rice	Director	33,800 ⁽⁵⁾	2.50%
Joyce Targus	Director	1,800	*%
All executive officers and directors as a group (11)		166,360	12.29%

*Less than one percent

⁽¹⁾ Based on 1,353,724 shares of Thurston Stock that were issued and outstanding as of August 15, 2016.

⁽²⁾ Also a director.

⁽³⁾ The number of shares includes 1,000 shares owned by a limited liability company that Mr. Bean has voting control over.

⁽⁴⁾ Includes 5,000 shares owned by Mr. LaForge's spouse.

⁽⁵⁾ Includes 3,000 shares owned by Mr. Rice's spouse.

Commencement

The following table sets forth the beneficial ownership of Commencement Common Stock as of August 15, 2016, by (i) each person or entity who is known by Commencement to beneficially own more than 5% of the outstanding shares of Commencement Common Stock, (ii) each director of Commencement, (iii) Commencement’s executive officers, and (iv) all directors and executive officers of Commencement as a group. The address of each listed shareholder is the same as Commencement.

The percentage of beneficial ownership is calculated in relation to the 2,223,146 shares of Commencement Common Stock that were issued and outstanding as of August 15, 2016. Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission (“SEC”), which generally attribute beneficial ownership of securities to persons who possess sole or shared voting or investment power with respect to those securities, and includes shares of Commencement common stock issuable pursuant to the exercise of stock options or warrants that are currently exercisable or exercisable within 60 days of August 15, 2016, and restricted stock grants that vest within 60 days of August 15, 2016. Options or warrants to purchase shares of Commencement common stock that are exercisable within 60 days of August 15, 2016, and restricted stock awards that vest within 60 days of August 15, 2016, are considered beneficially owned by the person holding such options, warrants or restricted stock grants for the purpose of computing ownership of such person, but are not treated as outstanding for the purpose of computing the beneficial ownership of any other person. Subject to the voting agreements entered into with Thurston in connection with the Merger (see “*Commencement Special Meeting – Voting Agreements*”), to Commencement’s knowledge, the persons or entities identified in the table below have sole voting and investment power with respect to all shares shown as beneficially owned by them.

<u>Name</u>	<u>Title</u>	<u>Amount of Beneficial Ownership</u>	<u>Percentage of Outstanding Shares of Common Stock Beneficially Owned⁽¹⁾</u>
5% Shareholders			
Charles F. Diesing ⁽²⁾	Director	219,730	9.51%
Adrianna Whisnant/ANW Investments, LLC ⁽³⁾	Shareholder	219,730	9.51%
Executive Officers			
Mary Ann Haglund	EVP and Chief Operations Officer	7,572	*%
Darin Johnson	SVP and Chief Financial Officer	0	*%
John E. Manolides	EVP and Chief Credit Officer	20,994	*%
Harald R. Russell ⁽⁴⁾⁽⁵⁾	President and Chief Executive Officer	60,000	2.60%
Directors			
Charles F. Diesing ⁽²⁾	Director	219,730	9.51%
John C. James ⁽⁵⁾	Director	23,500	1.02%
Peter J. Lemcke ⁽⁵⁾	Director	50,000	2.16%
L. Rose Lincoln-Hamilton	Director	1,500	*%
Daniel K. McFarland ⁽⁵⁾	Director	72,500	3.14%
Thomas H. Nixon ⁽⁶⁾	Vice Chair, Board of Directors	25,000	1.08%
Thomas A. Valentine ⁽⁷⁾	Chair, Board of Directors	16,000	*%
James L. Walton ⁽⁸⁾	Director	17,500	*%
Edward A. Zittel ⁽⁵⁾	Director	36,500	1.58%
All executive officers and directors as a group (13)		550,796	23.83%

*Less than one percent

⁽¹⁾ Based on 2,223,146 shares of Commencement Stock that were issued and outstanding as of August 15, 2016. The percentage assumes the exercise by the shareholder or group named in each row of all options and warrants for the purchase of Commencement common stock, held by such shareholder or group and exercisable or vesting within 60 days of August 15, 2016, and all restricted stock grants vesting within 60 days of August 15, 2016. The aggregate of such shares is 88,500, all of which have an exercise price of \$10.00 per share, and expire on December 10, 2016.

⁽²⁾ Includes a warrant to purchase 20,000 shares of Commencement common stock at \$10.00 per share, expiring December 10, 2016.

⁽³⁾ Includes 182,470 shares owned by Ms. Whisnant, individually, and 37,620 shares owned by ANW Investments, LLC, of which Ms. Whisnant is the sole member.

⁽⁴⁾ Also a director.

⁽⁵⁾ Includes a warrant to purchase 10,000 shares of Commencement common stock at \$10.00 per share, expiring December 10, 2016.

⁽⁶⁾ Includes a warrant to purchase 5,000 shares of Commencement common stock at \$10.00 per share, expiring December 10, 2016.

⁽⁷⁾ Includes a warrant to purchase 6,000 shares of Commencement common stock at \$10.00 per share, expiring December 10, 2016.

⁽⁸⁾ Includes a warrant to purchase 7,500 shares of Commencement common stock at \$10.00 per share, expiring December 10, 2016.

Resulting Bank

The percentage of beneficial ownership is calculated in relation to the 3,444,747 shares of Commencement Common Stock it is anticipated will be issued and outstanding post-merger.

The following table sets forth the beneficial ownership of Commencement Common Stock, post-Merger, by (i) each person or entity who Commencement knows will beneficially own more than 5% of the outstanding shares of Commencement Common Stock, (ii) each director of Commencement, (iii) Commencement's executive officers, and (iv) all directors and executive officers of Commencement as a group. Upon completion of the transaction, three (3) members of the board of directors of Commencement will resign (John C. James, Peter J. Lemcke and James L. Walton), and four (4) members of the board of directors of Thurston (Stephen J. Bean, David Owens, M.D., Rob C. Rice, and Cheryl L. Duryea) will join the board of directors of Commencement. The address of each listed shareholder, post-Merger, will be the same as Commencement.

Beneficial ownership is determined in accordance with the rules of the SEC, which generally attribute beneficial ownership of securities to persons who possess sole or shared voting or investment power with respect to those securities, and includes shares of Commencement common stock issuable pursuant to the exercise of stock options or warrants that are currently exercisable or exercisable within 60 days of August 15, 2016, and restricted stock grants that vest within 60 days of August 15, 2016. Options or warrants to purchase shares of Commencement common stock that are exercisable within 60 days of August 15, 2016, and restricted stock awards that vest within 60 days of August 15, 2016, are considered beneficially owned by the person holding such options, warrants or restricted stock grants for the purpose of computing ownership of such person, but are not treated as outstanding for the purpose of computing the beneficial ownership of any other person.

<u>Name</u>	<u>Title</u>	<u>Amount of Beneficial Ownership</u>	<u>Percentage of Outstanding Shares of Common Stock Beneficially Owned⁽¹⁾</u>
5% Shareholders			
Charles F. Diesing ⁽²⁾⁽³⁾	Director	225,144	6.37%
Adrianna Whisnant/ANW Investments, LLC ⁽⁴⁾	Shareholder	219,730	6.22%

<u>Name</u>	<u>Title</u>	<u>Amount of Beneficial Ownership</u>	<u>Percentage of Outstanding Shares of Common Stock Beneficially Owned⁽¹⁾</u>
Executive Officers			
Mary Ann Haglund	EVP and Chief Operations Officer	7,572	*%
James H. Haley	President and Chief Executive Officer of Thurston First Bank (a d/b/a of Commencement)	21,296	*%
Darin Johnson	SVP and Chief Financial Officer	0	*%
John E. Manolides	EVP and Chief Credit Officer	20,994	*%
Harald R. Russell ⁽⁵⁾⁽⁶⁾	President and Chief Executive Officer	60,000	1.70%
Directors			
Stephen J. Bean ⁽⁷⁾	Director	20,574	*%
Charles F. Diesing	Director	225,144	6.37%
Cheryl L. Duryea	Director	9,475	*%
L. Rose Lincoln-Hamilton	Director	1,500	*%
Daniel K. McFarland ⁽⁶⁾	Director	72,500	2.05%
Thomas H. Nixon ⁽⁸⁾	Vice Chair, Board of Directors	25,000	*%
David Owens, M.D.	Director	24,364	*%
Rob C. Rice ⁽⁹⁾	Director	30,501	*%
Thomas A. Valentine ⁽¹⁰⁾	Chair, Board of Directors	16,000	*%
Edward A. Zittel ⁽⁶⁾	Director	36,500	1.03%
All executive officers and directors as a group (15)		571,420	16.17%

*Less than one percent

⁽¹⁾ Based on 3,444,747 shares of Commencement Stock that will be issued and outstanding post-merger, assuming no Thurston shareholders perfect their dissenter's rights. The percentage assumes the exercise by the shareholder or group named in each row of all options and warrants for the purchase of Commencement common stock, held by such shareholder or group and exercisable or vesting within 60 days of August 15, 2016, and all restricted stock grants vesting within 60 days of August 15, 2016. The aggregate of such shares is 88,500, all of which have an exercise price of \$10.00 per share, and expire on December 10, 2016.

⁽²⁾ Includes 5,414 shares acquired from the Thurston transaction (6,000 shares of Thurston Stock converted at the Exchange Ratio = 5,414 shares of Commencement Common Stock).

⁽³⁾ Includes a warrant to purchase 20,000 shares of Commencement common stock at \$10.00 per share, expiring December 10, 2016.

⁽⁴⁾ Includes 182,470 shares owned by Ms. Whisnant, individually, and 37,260 shares owned by ANW Investments, LLC, of which Ms. Whisnant is the sole member.

⁽⁵⁾ Also a director.

⁽⁶⁾ Includes a warrant to purchase 10,000 shares of Commencement common stock at \$10.00 per share, expiring December 10, 2016.

⁽⁷⁾ The number of shares includes 1,000 shares owned by a limited liability company that Mr. Bean has voting control over.

⁽⁸⁾ Includes a warrant to purchase 5,000 shares of Commencement common stock at \$10.00 per share, expiring December 10, 2016.

⁽⁹⁾ Includes 3,000 shares owned by Mr. Rice's spouse.

⁽¹⁰⁾ Includes a warrant to purchase 6,000 shares of Commencement common stock at \$10.00 per share, expiring December 10, 2016.

COMPARATIVE MARKET PRICES AND DIVIDEND DATA

Commencement Bank

Commencement Stock is currently quoted on the OTC Market Group Inc.'s OTCQX, under the symbol "CBWA." Although Commencement Stock is quoted on the OTCQX, the trading markets on the OTCQX lack the depth, liquidity, and orderliness necessary to maintain a liquid market. The OTCQX prices are quotations, which reflect inter-dealer prices, without retail mark-up, markdown or commissions and may not represent actual transactions.

The following table sets forth the high and low trading prices of Commencement Stock quarterly, commencing with the 2nd Quarter of 2015 (June 25, 2015) when the stock was first quoted on the OTCQX. Trading prices are based on information received from the OTCQX based on all transactions for shares of Commencement Stock reported on the OTCQX and do not include retail markups, markdowns or commissions:

	<u>Commencement</u>	
	<u>Market Price</u>	
	<u>High</u>	<u>Low</u>
Six-Months Ending June 30, 2016		
First Quarter	\$9.90	\$8.82
Second Quarter	9.20	8.82
Third Quarter (as of August 26, 2016)	\$9.25	\$9.10
Year Ending December 31, 2015		
Second Quarter	13.25	13.25
Third Quarter	13.50	10.70
Fourth Quarter	10.95	9.81

Prior to Commencement listing its common stock on the OTCQX, there were limited trades in Commencement Common Stock, and no active trading market for the stock. From January 1, 2012 through June 24, 2015, there were 12 trades known to Commencement. These transfers involved a total of 184,970 shares. Sales prices have ranged from \$5.00 to \$10.00, to Commencement's best knowledge. These prices were not necessarily indicative of the fair market value of the stock, nor was Commencement necessarily aware of all transfers or the price of those transfers.

Dividends Payable by Commencement

Under Washington law, cash dividends by a Washington state chartered bank may not exceed the bank's retained earnings without DFI approval. As a member of the Federal Reserve System, Commencement may not declare or pay a dividend if the dividend would exceed the bank's undivided profits as reportable on its Reports of Condition and Income, unless the bank has received the prior approval of the Board and of at least two-thirds of the shareholders of each class of stock outstanding.

In addition to the regulatory limitations, the declaration and payment of dividends depends upon business considerations, operating results, capital and reserve requirements, and consideration by the Commencement board of directors of other relevant factors.

Commencement declared and paid a \$.07 per share cash dividend on Commencement Stock in 2015. Commencement has not declared a dividend in 2016, and does not currently plan to do so.

Thurston First Bank Common Stock

Thurston Stock is not currently quoted on any active securities exchange or market. Therefore, there is no trading market for the Thurston common stock. As of the date of this joint proxy statement/offering memorandum, the only trades of Thurston common stock were between individuals via a private sale.

Dividends Payable by Thurston

Under Washington law, cash dividends by a Washington state chartered bank may not exceed the bank's retained earnings without DFI approval. In addition to the regulatory limitations, the declaration and payment of dividends depends upon business considerations, operating results, capital and reserve requirements, and consideration by the Thurston board of directors of other relevant factors.

Thurston has not previously declared and paid a dividend on Thurston Stock.

DESCRIPTION OF COMMENCEMENT CAPITAL STOCK

The following discussion summarizes some of the important rights of Commencement shareholders. This discussion does not purport to be a complete description of these rights and may not contain all of the information regarding the Commencement Stock that is important to you. These rights can be determined in full only by reference to federal and state banking laws and regulations, the WCBA, and the Articles of Incorporation and Bylaws of Commencement.

Commencement's authorized capital stock consists of 10,000,000 shares of common stock ("Commencement Stock"). As of August 15, 2016, 2,223,146 shares of Commencement Stock were outstanding and held of record by approximately 184 shareholders of record. In addition, 450,000 shares have been allocated to Commencement's 2006 Equity Incentive Plan. As of August 15, 2016, there were options to purchase 37,500 outstanding, 19,000 of which are vested, and 6,800 restricted stock grants outstanding.

Common Stock

Each holder of Commencement Stock is entitled to one vote for each share held on all matters on which shareholders are entitled to vote. Holders of Commencement Stock do not have preemptive rights and do not have cumulative voting rights with regard to the election of directors. Each share has equal rights to participate in dividends when declared and, in the event of liquidation, in the net assets of Commencement available for distribution to shareholders.

All issued and outstanding shares of Commencement Stock are duly authorized, validly issued, fully paid, and nonassessable. All authorized but unissued shares of Commencement Stock will be available for issuance by the board of directors of Commencement without any further shareholder action. Commencement's ability to pay dividends on Commencement Stock is regulated by state and federal law. See "*Supervision and Regulation*" and "*Comparative Market Prices and Dividend Data*."

SUPERVISION AND REGULATION

Banking is a complex, highly regulated industry. Consequently, Commencement's growth and earnings performance can be affected, not only by management decisions and general and local economic conditions, but also by the statutes administered by, and the regulations and policies of, various governmental regulatory authorities. These authorities include, but are not limited to, the FRB, the FDIC, the DFI, the IRS and state taxing authorities. The effect of these statutes, regulations and policies and any changes to any of them can be significant and cannot be predicted.

The primary goals of the bank regulatory scheme are to maintain a safe and sound banking system and to facilitate the conduct of sound monetary policy. In furtherance of those goals, the U.S. Congress and the individual states have created numerous regulatory agencies and enacted numerous laws that govern banks and the banking industry. The system of supervision and regulation applicable to Commencement establishes a comprehensive framework for Commencement's operations and is intended primarily for the protection of the FDIC's deposit insurance funds, Commencement's depositors and the public, rather than the shareholders and creditors. The following is an attempt to summarize some of the relevant laws, rules and regulations governing banks, but does not purport to be a complete summary of all applicable laws, rules and regulations governing banks. The descriptions are qualified in their entirety by reference to the specific statutes and regulations discussed.

Commencement is a Washington state bank and is subject to various requirements and restrictions under the laws of the United States and Washington, and to regulation, supervision and regular examination by the DFI and the FDIC. Commencement is required to file reports with the DFI, FDIC and the FRB concerning its activities and financial condition in addition to obtaining regulatory approvals before entering into certain transactions such as mergers with, or acquisitions of, other financial institutions. The regulators have the power to enforce compliance with applicable banking statutes and regulations. Those regulations include requirements to maintain reserves against deposits, restrictions on the nature and amount of loans that may be made and the interest that may be charged on loans, and restrictions relating to investments and other activities of Commencement.

Branching

Under the Dodd-Frank Act, which was enacted on July 21, 2010, state banks are able to establish branches in any state if that state would permit the establishment of the branch by a state bank chartered in that state. Washington law permits a state bank to establish a branch of the bank anywhere in the state. Accordingly, under the Dodd-Frank Act, a bank with its headquarters outside the state of Washington may establish branches anywhere within Washington.

Deposit Insurance Assessments

Banks must pay assessments to the FDIC for federal deposit insurance protection. The FDIC has adopted a risk-based assessment system as required by the Federal Deposit Insurance Corporation Improvement Act of 1991. Under this system, FDIC-insured depository institutions pay insurance premiums at rates based on their risk classification. Institutions assigned to higher risk classifications (that is, institutions that pose a higher risk of loss to their respective deposit insurance funds) pay assessments at higher rates than institutions that pose a lower risk. An institution's risk classification is assigned based on its capital levels and the level of supervisory concern the institution poses to the regulators. In addition, the FDIC can impose special assessments in certain instances. The FDIC may terminate its insurance of deposits if it finds that the institution has engaged in unsafe and unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC.

The enactment of the Emergency Economic Stabilization Act of 2010 temporarily raised the basic limit on federal deposit insurance coverage from \$100,000 to \$250,000 per depositor. The temporary increase in deposit insurance coverage became effective on October 3, 2010. In addition, on May 20, 2011, President Obama signed the Helping Families Save Their Homes Act, which extended the temporary increase in the standard maximum deposit insurance amount to \$250,000 per depositor through December 31, 2013. This extension of the temporary \$250,000 coverage limit became permanent under the Dodd-Frank Act.

The Dodd-Frank Act, signed into law on July 21, 2010, changes the basis for deposit assessments from a tax based on deposits to one based on assets. The assessment base is calculated based on the average consolidated total assets of the financial institution minus its tangible equity. The Dodd-Frank Act also increases the minimum reserve ratio of the Deposit Insurance Fund, but the burden of the increase will be on institutions with total assets in excess of \$10 billion.

Dividends

The ability of Commencement, as a Washington state bank, to pay dividends is restricted under the laws of the state of Washington.

Commencement is also subject to certain restrictions on the payment of dividends as a result of the requirement that it maintain an adequate level of capital in accordance with guidelines promulgated from time to time by the federal regulators. In particular, as a Washington state bank, Commencement's ability to pay dividends is restricted by certain laws and regulations. Under the Washington Financial Code, Commencement is permitted to pay a dividend in the following circumstances: (i) without the consent of either the DFI or Commencement's shareholders, in an amount not exceeding the lesser of (a) the retained earnings of Commencement; or (b) the net income of Commencement for its last three fiscal years, less the amount of any prior distributions during such three-year period; (ii) with the prior approval of the DFI, in an amount not exceeding the greatest of: (a) the retained earnings of Commencement; (b) the net income of Commencement for its last fiscal year; or (c) the net income for Commencement for its current fiscal year; and (iii) with the prior approval of the DFI and Commencement's shareholders in connection with a reduction of its contributed capital. The FRB may also restrict the payment of dividends if such a payment would be deemed unsafe or unsound or if after the payment of such dividends, Commencement would be included in one of the "undercapitalized" categories for capital adequacy purposed pursuant to federal law.

The present and future dividend policy of Commencement is subject to the discretion of its boards of directors. In determining whether to pay dividends and, if made, the amount of the dividends, the board of directors of Commencement considers many of the same factors discussed above. Commencement cannot guarantee that it will have the financial ability to pay dividends to shareholders. Commencement is not obligated to pay dividends. See "*Description of Commencement Capital Stock*."

Capital Adequacy

The FDIC and the DFI use a combination of risk-based guidelines and a leverage ratio to evaluate Commencement's capital adequacy and consider these capital levels when taking action on various types of applications and when conducting supervisory activities related to Commencement's safety and soundness.

The risk-based capital standards are designed to make regulatory capital requirements more sensitive to differences in risk profiles among financial institutions, to account for off-balance sheet exposure and to minimize disincentives for holding liquid assets. Assets and off-balance sheet items, such as letters of credit and unfunded loan commitments, are assigned to broad risk categories, each with

appropriate risk weights. The resulting capital ratios represent capital as a percentage of total risk-weighted assets and off-balance sheet items.

FDIC regulations require Commencement to meet four minimum capital standards: (i) a Tier 1 capital to adjusted total assets ratio, or “leverage capital ratio,” of at least 4% (3% for banks receiving the highest CAMELS rating), (ii) a minimum ratio of common equity tier 1 capital to risk-weighted assets of 4.5%, (iii) a Tier 1 capital to risk weighted assets ratio, or “Tier 1 risk-based capital ratio,” of at least 6% and (iv) a total risk based capital to risk weighted assets ratio, or “total risk-based capital ratio,” of at least 8%. These capital requirements are minimum requirements. Higher capital levels are required if warranted by the particular circumstances or risk profiles of individual institutions. For example, FDIC regulations provide that higher capital may be required to take adequate account of, among other things, interest rate risk and the risks posed by concentrations of credit, nontraditional activities or securities trading activities. In addition, the prompt corrective action standards discussed below, in effect, increase the minimum regulatory capital ratios for banking organizations.

The risk-based capital standards for banks require the maintenance of Tier 1 (core) and total capital (which is defined as core capital and supplementary capital) to risk-weighted assets of at least 6% and 8%, respectively. In determining the amount of risk-weighted assets, all assets, including certain off-balance sheet assets, are multiplied by a risk-weight factor of 0% to 100% assigned by the FDIC based on the risks believed inherent in the type of asset. Core capital is defined as common shareholders’ equity (including retained earnings), certain noncumulative perpetual preferred stock and related surplus and minority interests in equity accounts of consolidated banking subsidiaries, less intangibles other than certain mortgage servicing rights and credit card relationships. The components of supplementary capital currently include cumulative preferred stock, long-term perpetual preferred stock, mandatory convertible securities, subordinated debt and intermediate preferred stock, the allowance for loan and lease losses limited to a maximum of 1.25% of risk-weighted assets and up to 45% of net unrealized gains on available-for-sale equity securities with readily determinable fair market values. Overall, the amount of supplementary capital included as part of total capital cannot exceed 100% of core capital.

Under the prompt corrective action regulations, the FDIC is required and authorized to take supervisory actions against undercapitalized banks. For this purpose, a bank is placed in one of the following five categories based on the bank’s capital:

- well-capitalized (at least 5% leverage capital, 6.5% common equity tier 1 risk-based capital, 8% Tier 1 risk-based capital and 10% total risk-based capital);
- adequately capitalized (at least 4% leverage capital, 4.5% common equity tier 1 risk-based capital, 6% Tier 1 risk-based capital and 8% total risk-based capital);
- undercapitalized (less than 4% leverage capital, 4.5% common equity tier 1 risk-based capital, 6% Tier 1 risk-based capital and 8% total risk-based capital);
- significantly undercapitalized (less than 3% leverage capital, 3% common equity tier 1 risk-based capital, 4% Tier 1 risk-based capital and 6% total risk-based capital); and
- critically undercapitalized (less than 2% tangible capital).

Federal banking regulators are required to take various mandatory supervisory actions and are authorized to take other discretionary actions with respect to institutions in the three undercapitalized categories. The severity of the action depends upon the capital category in which the institution is placed. Generally, subject to a narrow exception, banking regulators must appoint a receiver or conservator for an institution that is “critically undercapitalized.” The federal banking agencies have specified by regulation the relevant capital level for each category. An institution that is categorized as “undercapitalized,”

“significantly undercapitalized,” or “critically undercapitalized” is required to submit an acceptable capital restoration plan to its appropriate federal banking agency.

Failure to meet capital guidelines could subject Commencement to a variety of enforcement remedies, including issuance of a capital directive, the termination of deposit insurance by the FDIC, a prohibition on accepting brokered deposits and other restrictions on Commencement’s business.

In July 2013, the federal banking agencies issued final rules to implement the Basel III regulatory capital reforms and changes required by the Dodd-Frank Act. The final rules establish a common equity tier 1 capital conservation buffer of 4.5% of risk-weighted assets applicable to all banking organizations. If a banking organization fails to hold capital above the minimum capital ratios and the capital conservation buffer, it will be subject to certain restrictions on capital distributions and discretionary bonus payments. The phase-in period for the capital conservation and countercyclical capital buffers for all banking organizations will begin on January 1, 2016.

Under the proposed rules previously issued by the federal banking agencies, accumulated other comprehensive income (“AOCI”) would have been included in a banking organization’s common equity tier 1 capital. The final rules allow community banks to make a one-time election not to include these new AOCI components in regulatory capital and instead use the existing treatment under the general risk-based capital rules that excludes most AOCI components from regulatory capital. The opt-out election must be made in the first call report that is filed after the financial institution becomes subject to the final rule.

The final rules permanently grandfather non-qualifying capital instruments (such as trust preferred securities and cumulative perpetual preferred stock) issued before May 19, 2010, for inclusion in the tier 1 capital of banking organizations with total consolidated assets less than \$15 billion as of December 31, 2009, and banking organizations that were mutual holding companies as of May 19, 2010.

Safety and Soundness Standards

The Federal Deposit Insurance Corporation Improvement Act of 1991 (“FDICIA”) imposes certain specific restrictions on transactions and requires federal banking regulators to adopt overall safety and soundness standards for depository institutions related to internal control, loan underwriting and documentation and asset growth. Among other things, FDICIA limits the interest rates paid on deposits by undercapitalized institutions, restricts the use of brokered deposits, limits the aggregate extensions of credit by a depository institution to an executive officer, director, principal shareholder or related interest, and reduces deposit insurance coverage for deposits offered by undercapitalized institutions for deposits by certain employee benefit accounts. The federal banking agencies may require an institution to submit to an acceptable compliance plan as well as have the flexibility to pursue other more appropriate or effective courses of action given the specific circumstances and severity of an institution’s noncompliance with one or more standards.

Dodd-Frank Act

The Dodd-Frank Act is resulting in a major overhaul of the current financial institution regulatory system. A summary of certain provisions of the Dodd-Frank Act is set forth below, along with information set forth in the applicable sections of this “Supervision and Regulation” section. Among other things, the Dodd-Frank Act establishes a new, independent Consumer Financial Protection Bureau tasked with protecting American consumers from unfair, deceptive and abusive financial products and practices. The Dodd-Frank Act also creates the Financial Stability Oversight Council, which focuses on identifying, monitoring and addressing systemic risks in the financial system. The Financial Stability Oversight Council would, among other tasks, make recommendations for increasingly strict rules for capital, leverage, and

other requirements to which systemically important financial institutions are subject. It is possible that such provisions may be applied to smaller financial institutions by their primary regulators. The Dodd-Frank Act also requires the implementation of the “Volcker Rule” for banks and bank holding companies, which would prohibit proprietary trading, investment in and sponsorship of hedge funds and private equity funds, and otherwise limit the relationships with such funds. In addition, the Dodd-Frank Act lifted Regulation Q, so that financial institutions are now allowed, but not required, to pay interest on demand deposits. The Dodd-Frank Act also includes provisions that, among other things, reorganize bank supervision and strengthen the authority of the Federal Reserve. While many of its provisions do not apply to Commencement directly, it is unclear how the implementing regulations or resulting market pressure may affect Commencement.

The Dodd-Frank Act requires fees charged for debit card transactions to be both “reasonable and proportional” to the cost incurred by the card issuer. The Dodd-Frank Act directs the Federal Reserve to define the meaning of such terms. In doing so, the Federal Reserve must consider costs incurred by issuers for fraud prevention, but cannot consider other expenses incurred in connection with the authorization, clearance and settlement of electronic debit transactions unless such costs are specific or incremental to the transactions. The Federal Reserve published its final rule regarding debit card interchange fees on July 20, 2011, and the rule became effective on October 1, 2011. Under the Federal Reserve’s final rule, the maximum permissible interchange fee that an issuer may receive for an electronic debit transaction is \$0.21 per transaction and 5 basis points multiplied by the value of the transaction. Any debit card issuer that has, along with its affiliates (i.e., any company that controls, is controlled by, or is under common control with another company), fewer than \$10 billion of assets will be exempt from the limit on interchange fees. Commencement believes, however, that market forces may erode the effectiveness of this exemption now that merchants can select more than one network for transaction routing.

The Dodd-Frank Act changes the basis for assessments from a tax based on deposits to one based on assets, as discussed above. The assessment base will be based on average consolidated total assets of the financial institution minus its tangible equity.

Further, the Dodd-Frank Act provides that the appropriate federal regulators must establish standards prohibiting as an unsafe and unsound practice any compensation plan of a bank holding company or other “covered financial institution” that provides an insider or other employee with “excessive compensation” or could lead to a material financial loss to such firm. In June 2010, before the Dodd-Frank Act, the bank regulatory agencies promulgated the Interagency Guidance on Sound Incentive Compensation Policies, which requires that financial institutions establish metrics for measuring the impact of activities to achieve incentive compensation with the related risk to the financial institution of such behavior. Together, the Dodd-Frank Act and the recent guidance on compensation may impact the current compensation policies at the banks.

It is difficult to predict at this time what impact the Dodd-Frank Act and implementing regulations will have on community banks like Commencement, including Commencement’s lending and credit practices and the potential increase to Commencement’s costs of regulatory compliance and operations. Moreover, the Dodd-Frank Act requires various federal agencies to promulgate numerous and extensive implementing regulations over the next several years and scope of these regulations cannot be determined at this time.

Consumer Financial Protection Bureau

The Dodd-Frank Act created a new, independent federal agency called the Consumer Financial Protection Bureau (“CFPB”), which is granted broad rulemaking, supervisory and enforcement powers under various federal consumer financial protection laws, including the Equal Credit Opportunity Act,

Truth in Lending Act, Real Estate Settlement Procedures Act, Fair Credit Reporting Act, Fair Debt Collection Act, the Consumer Financial Privacy provisions of the Gramm-Leach-Bliley Act and certain other statutes. The CFPB has examination and primary enforcement authority with respect to depository institutions with \$10 billion or more in assets. Depository institutions with less than \$10 billion in assets, such as Commencement, are subject to rules promulgated by the CFPB, which may increase their compliance risk and the costs associated with their compliance efforts, but the banks will continue to be examined and supervised by federal banking regulators for consumer compliance purposes. The CFPB has authority to prevent unfair, deceptive or abusive practices in connection with the offering of consumer financial products. The Dodd-Frank Act authorizes the CFPB to establish certain minimum standards for the origination of residential mortgages, including a determination of the borrower's ability to repay. In addition, the Dodd-Frank Act allows borrowers to raise certain defenses to foreclosure if they receive any loan other than a "qualified mortgage" as defined by the CFPB. The CFPB has opened inquiries into whether additional rule-making would be appropriate for overdraft protection programs.

The CFPB has already implemented rules effective February 2013 relating to remittance transfers under the Electronic Fund Transfer Act, which requires companies to provide consumers with certain disclosures before the consumer pays for a remittance transfer. The CFPB has also amended certain rules under Regulation C relating to home mortgage disclosure to reflect a change in the asset-size exemption threshold for depository institutions based on the annual percentage change in the Consumer Price Index for Urban Wage Earners and Clerical Workers. The exemption threshold has been adjusted to increase to \$41 million from \$40 million. Although it is difficult to predict at this time the extent to which the CFPB's final rules impact the operations and financial condition of the banks, such rules may have a material impact on the banks' compliance costs, compliance risk and fee income.

Community Reinvestment Act

The Community Reinvestment Act requires that, in connection with examinations of financial institutions within its jurisdiction, the FDIC must evaluate the record of each financial institution in meeting the credit needs of its local community, including low and moderate-income neighborhoods. These facts also are considered in evaluating mergers, acquisitions and applications to open a branch or facility.

Restrictions on Transactions with Affiliates and Loans to Insiders

Commencement is subject to the provisions of Section 23A of the Federal Reserve Act (the "Affiliates Act"), as such provisions are made applicable to state non-member banks by Section 18(j) of the Federal Deposit Insurance Act. These provisions place limits on the amount of:

- loans or extensions of credit to affiliates;
- investment in affiliates;
- assets that may be purchased from affiliates, except for real and personal property exempted by the Federal Reserve;
- the amount of loans or extensions of credit to third parties collateralized by the securities or obligations of affiliates; and
- Commencement's guarantees, acceptances or letters of credit issued on behalf of an affiliate.

The total amount of the above transactions are limited in amount, as to any one affiliate, to 10% of capital and surplus and, as to all affiliates combined, to 20% of capital and surplus. In addition to the limitation on the amount of these transactions, each of the above transactions must also meet specified

collateral requirements. Commencement must also comply with other provisions designed to avoid the taking of low-quality assets from an affiliate.

Commencement is also subject to the provisions of Section 23B of the Federal Reserve Act which, among other things, prohibits Commencement from engaging in any transaction with an affiliate unless the transaction is on terms substantially the same, or at least as favorable, as those prevailing at the time for comparable transactions with nonaffiliated companies. The Dodd-Frank Act expanded the scope of Section 23A, and going forward, will include investment funds managed by an institution as an affiliate, as well as other procedural and substantive hurdles.

Commencement is also subject to restrictions on extensions of credit to executive officers, directors, principal shareholders and their related interests. These extensions of credit: (i) must be made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with third parties and (ii) must not involve more than the normal risk of repayment or present other unfavorable features.

Federal Change in Control Regulations

Federal Reserve regulations require a 60-day prior written notice by any person, or any group acting in concert, seeking to acquire control over an insured institution. "Control" generally means the power to direct the management or the policies of the insured institution or the holding of 25% or more of any class of its outstanding voting securities. The Federal Reserve presumes that the acquisition of a bank's voting stock of any class is considered acquisition of control if immediately after such acquisition the acquiring person or group of persons will hold 10% or more of any class of outstanding voting securities of the bank and either: (i) the institution's securities are registered under the Exchange Act; or (ii) no other person holds, alone or in concert with others a greater amount of a class of voting shares of the institution. Exemptions may apply with respect to certain transactions.

Privacy

Under the Right to Financial Privacy Act, which imposes a duty to maintain confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records, financial institutions are required to disclose their policies for collecting and protecting confidential information. Clients generally may prevent financial institutions from sharing personal financial information with nonaffiliated third parties except for third parties that market the institutions' own products and services. Additionally, financial institutions generally may not disclose consumer account numbers to any nonaffiliated third party for use in telemarketing, direct mail marketing or other marketing through electronic mail to consumers.

Patriot Act, International Money Laundering Abatement and Financial Anti-Terrorism Act and Bank Secrecy Act

A major focus of governmental policy on financial institutions has been aimed at combating money laundering and terrorist financing. The Patriot Act and the International Money Laundering and Financial Anti-Terrorism Act of 2001 substantially broadened the scope of U.S. anti-money laundering laws and penalties, specifically related to the Bank Secrecy Act, and expanded the extra-territorial jurisdiction of the United States. The U.S. Treasury Department has issued a number of implementing regulations which apply various requirements of the Patriot Act to financial institutions such as Commencement. These regulations impose obligations on financial institutions to maintain appropriate policies, procedures and controls to detect, prevent and report money laundering and terrorist financing and to verify the identity of their customers.

Failure of a financial institution to maintain and implement adequate programs to combat money laundering and terrorist financing, or to comply with relevant laws and regulations, could have serious legal, reputational and financial consequences for the institution. Because of the significance of regulatory emphasis on these requirements, Commencement will continue to expend significant staffing, technology and financial resources to maintain programs designed to ensure compliance with applicable laws and regulations and an effective audit function for testing of the banks' compliance with the Bank Secrecy Act on an ongoing basis.

Other Regulations

Interest and other charges that Commencement collects or contracts for are subject to state usury laws and federal laws concerning interest rates. Commencement's loan operations also are subject to federal laws applicable to credit transactions, such as:

- the federal Truth-In-Lending Act, governing disclosures of credit terms to consumer borrowers;
- the Home Mortgage Disclosure Act, requiring financial institutions to provide information to enable the public and public officials to determine whether a financial institution is fulfilling its obligation to help meet the housing needs of the community it serves;
- the Equal Credit Opportunity Act, prohibiting discrimination on the basis of race, creed or other prohibited factors in extending credit;
- the Fair Credit Reporting Act, governing the use and provision of information to credit reporting agencies;
- the Fair Debt Collection Act, governing the manner in which consumer debts may be collected by collection agencies; and
- the rules and regulations of the various governmental agencies charged with the responsibility of implementing these federal laws.

In addition, Commencement's deposit operations are subject to the Electronic Funds Transfer Act and Regulation E, issued by the CFPB to implement that act, which govern automatic deposits to and withdrawals from deposit accounts and clients' rights and liabilities arising from the use of automated teller machines and other electronic banking services.

Proposed Legislation and Regulatory Action

New regulations and statutes are regularly proposed that contain wide-ranging proposals for altering the structures, regulations and competitive relationships of financial institutions operating in the United States. Commencement anticipates significant new regulations as a result of the Dodd-Frank Act pursuant to the rulemaking authority of the federal banking agencies. Commencement cannot predict whether or in what form any proposed regulation or statute will be adopted or the extent to which Commencement's business may be affected by any new regulation or statute.

Effect of Governmental Monetary Policies

The commercial banking business is affected not only by general economic conditions but also by both U.S. fiscal policy and the monetary policies of the Federal Reserve. Some of the instruments of fiscal and monetary policy available to the Federal Reserve include changes in the discount rate on member bank borrowings, the fluctuating availability of borrowings at the "discount window," open market operations,

the imposition of and changes in reserve requirements against member banks' deposits and assets of foreign branches, the imposition of and changes in reserve requirements against certain borrowings by banks and their affiliates, and the placing of limits on interest rates that member banks may pay on time and savings deposits. Such policies influence to a significant extent the overall growth of bank loans, investments, and deposits and the interest rates charged on loans or paid on time and savings deposits. Commencement cannot predict the nature of future fiscal and monetary policies and the effect of such policies on the future business and Commencement's earnings.

Concentrated Commercial Real Estate Lending Regulations

The FDIC and other federal banking regulatory agencies promulgated guidance governing financial institutions with concentrations in commercial real estate lending. The guidance provides that a bank has a concentration in commercial real estate lending if (i) total reported loans for construction, land development, and other land represent 100% or more of total capital or (ii) total reported loans secured by multifamily and non-farm residential properties and loans for construction, land development, and other land represent 300% or more of total capital and the bank's commercial real estate loan portfolio has increased 50% or more during the prior 36 months. If a concentration is present, management must employ heightened risk management practices including board and management oversight and strategic planning, development of underwriting standards, risk assessment and monitoring through market analysis and stress testing, and increasing capital requirements.

All of the above laws and regulations add significantly to the cost of operating Commencement and thus have a negative impact on profitability. Commencement would also note that there has been a tremendous expansion experienced in recent years by certain financial service providers that are not subject to the same rules and regulations as Commencement. These institutions, because they are not so highly regulated, have a competitive advantage over Commencement and may continue to draw large amounts of funds away from traditional banking institutions, with a continuing adverse effect on the banking industry in general.

FINANCIAL INFORMATION

The financial statements of Thurston as of and for the years ended December 31, 2015 and 2014 included in this joint proxy statement/offering memorandum and the financial statements of Commencement as of December 31, 2015 and 2014 included in this joint proxy statement/offering memorandum have been audited by Fortner, Bayens, Levkulich & Garrison, P.C., independent accountants.

LEGAL MATTERS

Certain legal matters with respect to the Merger will be passed upon for Commencement by Keller Rohrback L.L.P., Seattle, Washington.

WHERE YOU CAN FIND MORE INFORMATION

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You should rely only on the information contained in this joint proxy statement/offering memorandum. Neither Commencement nor Thurston has authorized anyone to provide you with different information. Therefore, if anyone gives you different or additional information, you should not rely on it. The information contained in this joint proxy statement/offering memorandum is correct as of its date. It may not continue to be correct after this date. Thurston has supplied all of the information about Thurston contained in this joint proxy statement/offering memorandum and Commencement has supplied all of the information contained in this joint proxy statement/offering memorandum about Commencement and its subsidiaries. Each of us is relying on the correctness of the information supplied by the other.

This joint proxy statement/offering memorandum does not constitute an offer to sell, or a solicitation of an offer to purchase, the securities offered by this joint proxy statement/offering memorandum, or the solicitation of a proxy, in any jurisdiction to or from any person to whom or from it is unlawful to make such offer, solicitation of an offer or proxy solicitation in such jurisdiction.

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