FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, DC 20429

FORM 8-K

CURRENT REPORT
PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

Date of Report (Date of earliest event reported):
January 26, 2018 (January 22, 2018)

OPUS BANK

(Exact name of registrant as specified in its charter)

California	**33-0564430**
(State or other jurisdiction of incorporation)	**(IRS Employer Identification No.)**

19900 MacArthur Blvd.,
12th Floor
Irvine, CA 92612
(Address, including zip code, of principal executive office)

Registrant's telephone number, including area code: (949) 250-9800

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☐ Written communication pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 under the Securities Act (17 CFR 230.405) or Rule 12b-2 under the Exchange Act (17 CFR 240.12b-2).

Emerging growth company ☒

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☒

Item 7.01 Regulation FD Disclosure.

On January 22, 2018, Opus Bank (the "Company") hosted a conference call and webcast to discuss its financial results for the quarter ended December 31, 2017. The conference call transcript is attached hereto as Exhibit 99.1. A replay of the call is available and will be available until February 21, 2018. The details for accessing the call replay are available from the Events page within the Investor Relations section of the Company's website: www.opusbank.com.

The conference call transcript includes a correction by the Company for an erroneous statement. A Description of the error and correction is described below:

- A Company representative indicated that we redeployed cash into higher-yielding investment securities, which resulted in a 69 percent increase over the past quarter. The stated 69 percent increase should have been attributed to the full year 2017, which has been corrected in the transcript (see page 5 of Exhibit 99.1).

Information contained herein, including Exhibit 99.1, shall not be deemed filed for the purposes of the Securities Exchange Act of 1934, nor shall such information and Exhibit be deemed incorporated by reference in any filing with the Federal Deposit Insurance Corporation, except as shall be expressly set forth by specific reference in such a filing. The furnishing of the transcript is not intended to constitute a representation that such furnishing is required by Regulation FD or that the transcript includes material investor information that is not otherwise publicly available.

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits.

Exhibit No.	Description
99.1	Opus Bank Fourth Quarter 2017 Conference Call Transcript

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: January 26, 2018

Opus Bank

By: /s/ Stephen H. Gordon
Name: Stephen H. Gordon
Title: President and
Chief Executive Officer

Exhibit No. 99.1

Opus Bank Fourth Quarter 2017 Conference Call Transcript

Opus Bank

Moderator: Stephen Gordon
January 22, 2018
8:00 a.m. PT

OPERATOR: This is Conference # 3999908

Operator: Good morning. My name is Lisa, and I will be your conference operator today. At this time, I would like to welcome everyone to the Opus Bank Fourth Quarter Earnings Conference Call.

All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question and answer session. If you would like to ask a question during this time, simply press star then the number one on your telephone keypad.

If you would like to withdraw your question, press the pound key. Thank you. Brett Villaume, Director of Investor Relations, you may begin your conference.

Brett Villaume: Thank you, Lisa. Good morning, and welcome to Opus Bank's Investor Webcast and Conference Call.

Today, I'm joined by Stephen Gordon, Opus Bank's Chief Executive Officer and President, Brian Fitzmaurice, Senior Executive Vice President and Senior Chief Credit Officer, Kevin Thompson, Executive Vice President and Chief Financial Officer, and Will Han, Deputy CFO and Chief Accounting Officer.

Our discussion today will cover the company's performance during the fourth quarter and full year 2017, and information contained in the earnings press release issued earlier this morning. A slideshow presentation that accompanies today's call is available on the Opus Bank investor webpage at investor.opusbank.com.

Today's discussion may entail forward-looking statements, which are intended to be covered by the safe harbor provisions of the Private Securities Litigation Reform Act of 1995.

You'll find a discussion of these forward-looking statements in our recent FDIC filings and on Page 9 of this morning's release. Today's call will include a question-and-answer session following the discussion.

For listeners who are participating via WebEx, should you have any questions, you may submit those using the Q&A feature located on the right-hand side of your WebEx window, the white triangle just to the left of the question mark and letters Q&A should be pointing down. Clicking on that triangle opens and closes the Q&A dialogue box. Now, I will turn the call over to Stephen Gordon, CEO and President.

Stephen Gordon: Thank you, Brett.

I will now provide an overview of our results for the fourth quarter and full year 2017, and then call on Kevin Thompson, Chief Financial Officer; Brian Fitzmaurice, Senior Chief Credit Officer to go into more detail in our financial performance and credit metrics.

We will address questions at the end of our prepared remarks.

Earlier this morning, Opus reported earnings for the fourth quarter and year ended December 31, 2017.

Included in our results was $9 million of additional income tax expense due to the previously announced revaluation of our deferred tax assets and other tax reform impacts as mandated by the Tax Cuts and Jobs Act, which among other items reduces the federal corporate income tax rate and will decrease our tax rate going forward. We anticipate that our go forward tax rate will decrease to approximately 25 percent.

Excluding this expense and other strategic initiatives, our net income and earnings per diluted share for the fourth quarter of 2017 would have been $10.1 million or $0.26 per share.

2017 was a year of significant transition and accomplishments for Opus Bank as we successfully executed on the important goals of enhancing our existing credit administration and risk management infrastructure and discipline, working through and derisking our portfolios of challenged credit, redefining and implementing Opus' Commercial Banking strategy, and bolstering the depth of our talent, much of which came with associated third party professional fees that we anticipate declining as we head into and through 2018.

For the full year 2017, we originated $1.5 billion in new loan fundings including $502 million during the fourth quarter, achieving our previously stated goal for the year.

Our pipeline of new loan originations remains robust entering the first quarter of 2018 despite the high level of new loan originations funded during the fourth quarter of 2017. Importantly, we saw our fourth quarter new loan fundings exceed payoffs and loan sales of $318 million, which included over $80 million of planned exits during the quarter.

As a result, net loan growth during the fourth quarter totaled $113 million or 9 percent annualized growth. Excluding planned exits, our fourth quarter loan growth would have been $193 million, which equates to approximately 15 percent annualized growth.

During 2017, we made tremendous progress in reducing the balances of loans we previously identified as planned exits as our credit team successfully executed on our plan to reduce the balances of legacy targeted portfolios.

Enterprise value loans were reduced by over 50 percent during 2017 from $915 million at year-end 2016, down to $418 million, while Technology Banking loans decreased 76 percent from $190 million at year-end 2016, down to $46 million, and Healthcare Practice loans decreased 63 percent from $68 million at year-end 2016, down to $25 million.

Additionally, we have made significant progress improving our overall credit quality. Total criticized loans decreased $41 million or 14 percent during the fourth quarter and have now decreased $110 million or 31 percent since their peak in the first quarter of 2017. Also, nonperforming assets decreased 10 percent during the fourth quarter, now measuring 0.78 percent of total assets and nonperforming assets decreased by 39 percent during 2017.

Given these accomplishments, we now enter 2018 acutely focused on disciplined growth and profitability.

Our highly flexible asset-sensitive balance sheet remains an important strategic advantage as we enter 2018 given the expectation the Fed will continue its course of increasing short-term rates.

As of December 31, 2017, floating and adjustable rate loans comprised 90 percent of our total loan portfolio and deposits consisted of over 93 percent low cost core transaction accounts, resulting in higher earning asset yields and sticky deposits with a lagging deposit beta in our interest rate sensitivity expectations.

The recent additions to our Commercial Banking teams are anticipated to bring further discipline traditional C&I loan growth over the course of 2018 and complement our leading Income Property Banking division.

While our cost of deposits was unchanged in the fourth quarter at 45 basis points and remained stable year-over-year, we anticipate the current increasing interest rate environment will result in somewhat higher deposit costs for Opus going forward.

Importantly though, we expect this pace of deposit cost increase to be at a slower pace than the anticipated increase in our loan yield as we focus on growing deposit relationships in 2018. \

During 2017, the positive impact of our new loan fundings and related loan interest income were masked by the rapid pace of our planned loan exits.

We expect that headwind to meaningfully lessen in 2018 and for our yields on loans and cash and investment securities to benefit from the anticipated Fed rate increases.

Opus additionally announced today that its Board of Directors has taken actions to enhance our corporate governance structure and policies to better align the bank with shareholders.

Based on our earnings and performance during 2017 and our strong capital levels, we're proud to announce that the Board of Directors has authorized the payment of a $0.10 quarterly cash dividend, providing additional return to Opus' shareholders.

I'm confident that our efforts over the past year have laid the foundation for continued improved performance in 2018. I will now turn the discussion over to the Kevin Thompson to go into more detail on our financial performance.

Kevin Thompson: Thank you, Stephen. To begin with, I want to say I'm very excited to be part of the Opus team and I'm pleased to be joining Stephen and Brian on the call today. I'm also very glad to have on the finance team, Will Han, Deputy CFO and Chief Accounting Officer, who's been instrumental in getting me up to speed and smoothing the transition.

Having joined Opus in mid-November, I've already come to appreciate the strong corporate culture and teamwork that exists and I look forward to accomplishing a lot together as we enter 2018.

Turning to Slide 4 in the deck. Net interest income decreased 2 percent in the quarter to $52 million primarily due to lower average loan balances. The net interest margin decreased 2 basis points to 3.15 percent.

This is on a taxable equivalent basis, which adjusts for the impact of the tax benefit on loans made in our Public Finance division, and this is how we will refer to our NIM going forward.

The net interest margin was impacted by the yield on loans, which decreased 11 basis points to 4.18 percent primarily due to higher yielding payoffs coming off our book, which had a weighted average rate of 4.69 percent and included planned exits, which carried a yield of 6.10 percent.

While planned exits decrease our potential future credit volatility, they do negatively impact our margin and loan balances. Interest income from Investment Securities increased 16 percent due to lower prepayments on the underlying loans, resulting in less premium amortization and a higher yield.

Interest expense was down 2 percent primarily due to lower average balances of deposits.

On Slide 5, you can see that noninterest income decreased $2.3 million primarily due to lower Merchant Banking division revenues and the impact of equity warrant valuations.

Merchant Banking revenues are difficult to predict and are best viewed on an annual basis. Noninterest income accounted for 20 percent of total revenues in the quarter.

As shown on Slide 6, noninterest expense increased slightly by 1 percent from the prior quarter. This was primarily driven by higher marketing expenses as well as by certain legal and consulting fees that are not expected to be repeated in the first quarter.

Our efficiency ratio increased to 71.5 percent in the fourth quarter, moving in the opposite direction of what we had previously guided, mostly due to lower total revenues than expected.

Turning to Slide 7, cash and investment securities totaled $1.6 billion comprising 22 percent of total assets. Over the past year, we redeployed cash into higher-yielding investment securities, which resulted in a 69 percent increase.[1] Our securities portfolio consists almost exclusively of government agency mortgage backed securities.

The duration of our securities portfolio remains relatively short at 3.1 years and the expected duration under a 200 basis point rate shock extends to only 4 years. The yield on the portfolio was 2.08 percent benefiting from lower prepayments in the quarter.

On Slide 8, you can see that during the quarter, loans increased $113 million or 9 percent on an annualized basis. The increase occurred as total loan pay downs and loan sales, including planned exits of $318 million were exceeded by new loan fundings of $502 million.

New loan fundings increased 34 percent as we saw growth across all our business lines with the Income Property Banking group representing $285 million of the fundings. New loan fundings for the full year totaled $1.5 billion compared to $2.3 billion in 2016.

At the beginning of 2017, as a reminder, we purged our loan pipeline of Enterprise Value loans and began training our bankers on our new Commercial Banking strategy going forward. This created a decrease in loan fundings from the prior year, but also resulted in more disciplined growth.

[1] This response has been revised by the Company to correct the period referenced by the Company representative when discussing the redeployment of cash into higher yielding securities.

Commercial business loans, or C&I, represented 26 percent of the new fundings in the quarter. As our Commercial Banking strategy gains traction and our recent banker additions begin delivering in 2018, we anticipate this percentage will increase. We remain disciplined with structure and pricing across all our loan products in a highly competitive environment.

Turning to Slide 9, total deposits decreased by $126 million from the prior quarter or 2 percent. Opus' alternative asset IRA custodian subsidiary, PENSCO, contributed $120 million of additional client cash balances at low-cost core deposits, as low-cost core deposits with a weighted average rate of only two basis points, which was offset by the outflow of higher-rate retail and municipal deposits.

For the full year 2017, total deposits decreased by $738 million or 11 percent as we intentionally reduced the balances of certain high-cost, more rate-sensitive deposits and sold 5 banking offices in the third quarter.

Opus' cost of deposits was flat for the prior quarter at 45 basis points and has remained relatively flat over the past eight quarters since the Fed began its current rising rate campaign in December 2015.

While we have experienced runoff in deposits over the past year, both intentional and unintentional, the diversity of Opus' sources of deposits has remained stable and consistent. Transaction accounts comprised 94 percent of total deposits and demand deposits comprised 55 percent.

Our loan-to-deposit ratio increased to 87 percent during the fourth quarter. We continue to very closely monitor our deposit base as well as our competition, and we remain focused on prudently managing deposit pricing.

As Stephen mentioned earlier, we anticipate the current increasing interest rate environment and the need to match loan growth with funding will result in somewhat higher deposit costs going forward. Although we expect this to be at a slower pace than the anticipated increase in our loan yields.

Slide 10 details our regulatory capital ratios over the past five quarters. We have managed capital prudently with the Tier 1 leverage ratio at 9.45 percent and the total risk-based capital ratio at 14.97 percent at the end of the quarter. Our tangible book value per as converted share also increased $0.04 to $17.26.

Considering our prudent capital position and the trajectory of our business, the Opus Board announced that it has initiated a $0.10 quarterly cash dividend providing additional return to Opus shareholders.

As illustrated on Slide 11, our asset-sensitive balance sheet continues to be well positioned to benefit from rate increases. 90 percent of our loans are floating and adjustable-rate loans while 94 percent of our deposits are in non-CD, low-cost transaction accounts that have so far proven to be very resilient in terms of deposit beta.

While we anticipate our deposit cost will begin to rise in 2018 along with market rates, the impact is expected to be lower than the benefit we will experience on the asset side of the balance sheet. The duration of our assets measures about half of the duration of our liabilities and our net interest income is expected to benefit by 7.9 percent, given a 100 basis point move in rates over the next 12 months.

I will now turn the discussion over to Brian Fitzmaurice to go into more detail on our loan portfolio and credit metrics.

Brian Fitzmaurice: Thank you, Kevin. From a credit perspective, we had a productive fourth quarter. For the first time since 2016, we had simultaneous reductions in major credit risk categories including criticized, classified, special mention, and nonaccrual loans.

Additionally, during the quarter, we continued the successful reduction in our portfolios that we've identified as planned exits or deemphasized lending areas including Enterprise Value, Technology Banking and Healthcare Practice loans. Enterprise Value or EV loans were reduced by $62 million or 13 percent to $418 million.

The balances of Technology Banking and Healthcare Practice loan portfolios were both reduced by $3 million during the fourth quarter or 6 percent and 11 percent, respectively.

Approximately $20 million of Technology loans and $2 million of Healthcare Practice loans are also EV loans and are included in the period end totals for both categories I just provided. Going forward, I will limit my reporting to EV loans in light of the relatively small Technology and Healthcare Practice portfolios.

On previous quarter’s earnings conference calls, I clarified that not all of our EV loan relationships have been identified as planned exits. The percentage of EV loans that we identified as eligible for retention at the end of the fourth quarter is 35 percent or $146 million.

The reduction from 46 percent in the third quarter is due to various loans paying off as a result of either refinance or the sale of the companies as well as recategorizing two relationships to not eligible for retention.

As I stated earlier, we continue to make progress in resolving total criticized loans during the fourth quarter. Total criticized loans decreased $41 million or 14 percent in the fourth quarter, driven by a $28 million or 23 percent decrease in special mention loans to $93 million and a $13 million or 8 percent decrease in classified loans to $156 million.

While these results are positive, they are the net result of both the successful resolution of planned loan exits during the quarter and credit migrations into criticized loan categories.

The decrease in criticized loans during the fourth quarter were primary driven by $75 million of full loan payoffs, loan sales, charge-offs, and normal amortization and $12 million of loans upgraded out of classified loans, partially offset by $46 million of loans downgraded into criticized categories.

Since the peak in total criticized and classified loans in the first quarter of 2017, we have now reduced criticized loan balances by $110 million or 31 percent, while classified loans have decreased by $120 million or 43 percent. Special mention loans peaked in the third quarter of 2017 and as I just mentioned were reduced by $28 million or 23 percent.

Nonperforming assets decreased by 10 percent to $58 million during the fourth quarter, down from $65 million in the prior quarter and for the full year 2017, NPAs decreased $37 million or 39 percent.

Nonperforming assets to total assets decreased 11 basis points to 0.78 percent as of December 31. Net charge-offs to average loans in the fourth quarter were 41 basis points on an annualized basis. I'll explain more about the charge-offs in a minute.

In accordance with our established allowance for loan and lease losses methodology, we recorded a provision for loan losses for the fourth quarter of $3 million.

The material factors that drove the provision during -- the provision expense during the fourth quarter were net charge-offs of $5.2 million, $5.8 million of net risk weighting migration and $1.8 million of additional reserves due to higher loss factors used to determine the loan loss reserves in accordance with our allowance methodology. These were partially offset by a $9 million decline in reserves due to changes in portfolio mix and loan exits and a decrease in specific reserves of $863,000.

I note that approximately $2 million of the charge-offs in the fourth quarter were associated with the opportunistic sale of $15.6 million substandard Commercial Real Estate, non-multifamily loans, of which $11.6 million were on nonaccrual. As a reminder, our methodology to establish reserves for the pass rated portfolio is heavily driven by current quarter charge-offs and recoveries.

In quarters where we experienced loan losses, we will generally see an increased factor used to establish the allowance on pass rated loans and conversely, in quarters where we have net recoveries will generally see a reduction in the factor used to establish the reserves on pass rated loans.

As of December 31, 2017, our allowance for loan losses totaled $76 million or 1.47 of total loans, a reduction of $2 million or 7 basis points from the prior quarter, and we had $17.7 million of specific reserves or 30.4 percent of nonaccrual loans compared to $18.6 million or 28.5 percent of nonaccrual loans in the third quarter, all of which were allocated to C&I loans.

Along with general reserves on C&I loans of $39 million, the reserve coverage ratio was 4.35 percent on our total C&I portfolio as of December 31.

To sum up, I'm pleased with the progress that we've made over the last 12 months in reducing problem loans and the deemphasized loan portfolios.

I would like to remind everyone that approximately 65 percent of our nonaccrual loans are EV loans and although we have workout strategies in place for each loan, if any of these strategies are unsuccessful, there could be significant loss given default to that specific loan.

We remain highly focused on the remediation of problem loans and working through the process of rationalizing our previously identified deemphasized portfolios, and we continue to be optimistic that we will report continued progress in future quarters.

I'll now hand the discussion back over to Stephen.

Stephen Gordon: Thank you, Brian.

On Slide 16, we present a new slide that summarizes our outlook for the future. The outlook is based on the current economic and interest rate environment. We are targeting new loan fundings for 2018 of approximately $2 billion, which is an increase from $1.5 billion we achieved in 2017.

As we mentioned earlier in the call, we expect an increasing percentage of new loan fundings will come from our Commercial Banking divisions as our Commercial Banking strategy gains momentum and new bankers ramp production.

We anticipate our cost to deposit to gradually increase in 2018 although at a lesser rate than the benefit we will realize on our asset side due to the largely floating rate loan portfolio and short duration Investment Securities portfolio. We expect the pace of planned loan exits to slow during 2018, which has been a drag on our loan interest income during 2017.

As a result, we expect our net interest margin to gradually increase during the year to a range of 3.20% to 3.25% by year-end. Noninterest expense included strategic initiative-related expenses in 2017, many of which we anticipate will not reoccur in 2018.

We are also anticipating that our continued focus on disciplined expense management will result in increased operating leverage in 2018. Our efficiency ratio finished 2017 in the low 70s, although this level should not be assumed as a go forward run rate. Rather, we expect our efficiency ratio will gradually improve with the goal of being below 65.

We anticipate that the remaining balances of legacy targeted portfolios and problem loans will continue to decrease and we remain focused on continuing to enhance our risk management infrastructure including preparing for the implementation of CECL.

Finally, we anticipate our effective tax rate in 2018 to be approximately 25 percent based on our evaluation of the recently enacted tax reform legislation. Thank you again for joining our conference call today. Operator, would you please open the call for questions.

Operator: (Operator Instructions). And our first question comes from the line of Matthew Clark from Piper Jaffray.

Matthew Clark: On the expense run rate, I appreciate that guidance with the targeted efficiency ratio being below 65 percent as we work throughout the year, but any sense for being able to quantify what you think in the run rate around the branch optimization, the legal, credit? Are you able to size that up maybe on an annualized basis as to what may come out of the run rate?

Kevin Thompson: We've talked a lot about that and as a board, as management, we’ve really analyzed the company and feel like long term, this is a bank that has an efficiency ratio in the 50s, but it's a journey to get there and to do it right.

Of course, we mentioned in 2017, we enhanced a lot of processes and that enhancement will benefit us going forward and those were costs that will impact 2017 going forward, we enhance the credit administration risk management, internal audit and other important support functions of the bank.

And so we also mentioned in fourth quarter, the rate you see in the fourth quarter is not what you should expect going forward because of those onetime items so although we're not quantifying exactly how it will look going forward, we're obviously planning long-term to get this bank back to a really high benchmark bank that has a world-class efficiency ratio and that will -- we'll see that improving throughout 2018.

Matthew Clark: OK. And then on switching gears to the margin. Can you give us a sense for where new business is coming on the books in your traditional C&I that you're targeting as well as multifamily, and just trying to get at kind of marginal, that incremental spread in your business, assuming you can fund it with deposits.

Stephen Gordon: Sure. So Income Property, which is multifamily and commercial, is now coming on north of 4 percent. And traditional, Commercial Banking is coming on in the, I think it would be fair to use the number around the mid 4 -- mid-to approaching higher 4s and then it all depends obviously on what that blend is.

On the real estate side, Matt, in addition to multifamily commercial permanent financing, we also have the Structured Finance bridge type of financing and that's coming on in the high 4s.

It all depends on what that mix is as we go over the course of 2018 and as our Commercial Banking traditional C&I strategy takes greater traction and ramps over the course of the year.

Matthew Clark: OK. And then just switching to credit. Brian, of the $418 million of EV loans, how much of that is criticized? And then how much of that for '18 is on nonaccrual?

Brian Fitzmaurice: Yes, so the nonaccrual is $38 million, which is included in the criticized classified of $107 million.

Matthew Clark: OK. OK, great. And then it looks like obviously the overall trend continues to improve, but there was an uptick in a couple of items this quarter. I want to say, Corporate Finance and the other line by segment. Can you just talk to the increases there?

Brian Fitzmaurice: It's just kind of more of the same. We had about $9 million of EV migrate from eligible to ineligible retention, not eligible for retention so there was nothing really groundbreaking, just more of working through the process of the companies as they get in trouble.

Operator: Our next question comes from the line of Brian Zabora from Hovde Group.

Brian Zabora: A question on your NIM expectations. How many Fed rate hikes are you assuming in that?

Kevin Thompson: There are two -- in 2018, we're assuming two fed rate hikes.

Brian Zabora: OK. And then on the expense side, maybe just back to that. Do you have how much you felt like fourth quarter was elevated regarding the professional fees and the advertising expense?

Kevin Thompson: Yes, about -- excuse me, one moment. Go ahead, Will.

William Han: This is Will. I think within the expense base, we highlighted around $263,000 for the quarter as more legacy related. We anticipate going forward that should run off and kind of aligns with the expense guidance that we provide in our efficiency ratio.

Brian Zabora: OK, so the increase in advertising and professional fees, those are decent run rates or maybe they'll come down? Maybe just some more detail on those 2 line items.

Stephen Gordon: I would anticipate them coming down as we go through the year. Advertising should not be viewed as a run rate, and we're making all efforts to put a decent amount of the professional fees behind us.

As Kevin spoke to, we did a tremendous amount of work to enhance internal audit, compliance, credit administration, portfolio management, enterprise risk management across the entire company and with that as well as the earlier part of the year into the early parts in the second half of the year, carried a lot of additional legal expenses, and we're making all efforts to not have a repeat of that by any means in 2018.

Brian Zabora: That's good. And then just my last question, you made some hires recently, can you talk about your outlook for 2018? Are you still out there looking for additional hiring on the commercial side? Just what are your thoughts around that.

Stephen Gordon: We continue hiring and you're observing the announcements related to hires that we have made predominantly in the second half of 2017 and on into the fourth quarter, and we're continuing our efforts to build out a deeper and stronger traditional C&I team, up and down the West Coast and we would anticipate further progress on that front.

And then obviously, there is the time it takes for each of banker to ramp up and get into the market and get to where he's got live banking opportunities with clients and then those turn to actual live relationship based completed transactions, so to speak, that actually generate loan interest income, treasury management fee income, as well as a deposit relationship.

Operator: Our next question comes from the line of Timothy Coffey from FIG Partners.

Timothy Coffey: Looking at the top line revenue numbers. Your average loans, as a percentage of assets spent most 2017 below 80 percent for obvious reasons. What is your expectation on increasing loans as a percentage of earning assets? How quickly can you do that? You think you can get it back to 80 percent or over that in 2018?

Stephen Gordon: Well, I’m looking at it in our loan-to-deposit ratio and I'd anticipate us working towards that 90 percent loan-to-deposit ratio that I spoke to a number of times over the course of 2017.

Our loan pipeline, as we've entered 2018 is pretty solid especially given that we funded $502 million of loans in the fourth quarter and keep in mind that those fundings were a little bit back-end weighted in the fourth quarter.

And therefore, we didn't see obviously a full quarter of loan interest income contribution to the top line revenues, but we should see that benefit of the growth as we enter the first quarter and we're seeing that the pipeline is contributing to what we believe will be a good first quarter in terms of loan originations and loan growth.

Keep in mind, Tim, always, for years and I’ve seen this in our former institutions as well as continued here at Opus, the first quarter is generally our lighter quarter and we ramp over the course of the year.

In the second half of the year, loan fundings are higher than the first half of the year in terms of loan fundings, and that's just kind of the traditional seasonality of our business and perhaps the industry, but we feel pretty good going into the start of the year with a good pipeline, with good diversification and a lot of discipline that's gone into what is in the pipeline.

Timothy Coffey: OK, great color. And then looking at kind of the average cash balances, the kind of liquidity that you have on the balance sheet. The average balance is about $380 million at the end of the year. Is that a good dollar number to hold or do you think that could get lower?

Stephen Gordon: That number moves around and fortunately, we're now actually, as a result of the Fed hikes actually earning something on that cash, which is kind of nice and -- but we try to get ourselves in a position where we're actually optimizing our cash and optimizing returns on that cash.

So that number could go lower but again, loan-to-deposit ratio, we're really kind of targeting working our way towards around that 90 percent number.

Kevin Thompson: And it speaks strategically to the asset sensitivity we have on our balance sheet. Compared to our competitors, we hold a conservative level of liquidity and often cases, in securities as well, we have a loan-to-deposit ratio of 87 percent compared to the average market at 95 percent today, so there's some optionality in our balance sheet as interest rates go up that will really benefit us.

Timothy Coffey: And then the borrowings you brought on in the quarter, is your expectation to wind those down as you bring on new deposits, are you planning to hold those?

Kevin Thompson: We plan to wind those down over time and we'll replace it with deposits.

Stephen Gordon: We've already begun the process of bringing those down as we've been seeing deposit growth already here in the beginning of the year.

Timothy Coffey: And then I do have one more question. On the dividends for the preferred shares, what is the quarterly run rate for that?

Kevin Thompson: The preferred shares are tied to our common payment so there's no accrued payment. They're only paid upon a common payment.

Operator: Our next question comes from the line of the Tim O'Brien from Sandler O'Neill and Partners.

Timothy O'Brien: So one question I have. Other fee income, you guys had some onetime benefit from FHLB last quarter and also there was a shift in warrant income of looks like not quite $1 million. That number came down from $4 million to $861,000 in 4Q from last quarter. What accounted for the other difference?

Kevin Thompson: You point out some of the material differences, the other difference would be our Merchant Bank, noninterest income, which was about $2 million in the third quarter and came down to $240,000 in the fourth quarter and as I mentioned in my comments, that business can be cyclical and should be looked at on an annual basis.

Timothy O'Brien: All right, so continued volatility in that, but still a good business and things will shift around there?

Kevin Thompson: Yes. Things will shift around, fundamentally a great business.

Timothy O'Brien: And then approaching the question that Brian asked, just from a different angle. What was the total nonrecurring cost that you guys booked in overhead in the fourth quarter?

Kevin Thompson: Yes. As Will Han mentioned, there was -- we called out $263,000 of strategic initiatives related to infrastructure enhancements and severance payments.

If you look at the run rate though, you look at Professional Services coming up quarter-over-quarter about $1.3 million, you see marketing expenses coming up a good amount. Those are the types of line items that we don't see necessarily recurring going forward.

Timothy O'Brien: And then last question, so enterprise value loans that are not targeted for retention at quarter -- at year-end totaled $372 million, call it? Is that right?

Brian Fitzmaurice: Say that one more time?

Timothy O'Brien: Not targeted for retention, enterprise value loans at year-end, did they total $372 million?

Brian Fitzmaurice: No.

Timothy O'Brien: I'm sorry. $270 million, order of magnitude of $100 million of difference there?

Brian Fitzmaurice: Yes, it's 417 times 36 -- 35 percent.

Timothy O'Brien: Less $146 million? OK.

Brian Fitzmaurice: Yes.

Operator: Our next question comes from the line of Jackie Bohlen from KBW.

Jacquelynne Bohlen: Looking to the floating rate loans that you discussed, of that amount, I think you said it was around 90 percent. What percentage of that reprices on a quarterly basis?

Kevin Thompson: So if you look at our Slide 11, we tried to offer some new information that's helpful for analysts and investors to understand really the asset-sensitivity of our portfolio, which is very unusual, I think for most banks. Right now, a lot of banks have gotten further out in their terms. And you could see there on the slide in the bottom right-hand corner, we call out the variable rate, 38 percent of our portfolio would reprice immediately in terms of change of fundamental interest rates.

Stephen Gordon: Jackie, then add onto that, that we get a tremendous amount of cash flow every month, which as that principle is returned to us, we get the opportunity to redeploy that at the then interest rates so we do continue in a rising rate environment that return of principle, we get to put that back out at higher interest rates.

Jacquelynne Bohlen: Understood. And the 38 percent that reprices immediately, is that primarily prime, LIBOR?

Kevin Thompson: They are primarily prime and LIBOR-based, yes.

Jacquelynne Bohlen: OK. And when I think to the $2 billion in loan originations or fundings that are guided to this year, how do you think about the mix of that? Is it similar to 4Q? Is there a trajectory towards a different mix?

Stephen Gordon: No, the mix starts increasing from what it is -- what it was in fourth quarter to the increase starts taking place in the C&I -- traditional C&I and Specialty Banking divisions. So we start seeing an increasing contribution from Commercial Business over the course of the year.

Jacquelynne Bohlen: OK. So as originations ramp up, just seasonality in 1Q and what have you, then with that ramp-up, we would also see them becoming a more profitable mix of loans that are added to the balance sheet just based on the pricing information you gave in the remarks earlier?

Stephen Gordon: That's what we model for this year.

Jacquelynne Bohlen: OK. And then just one last one. Thinking about PENSCO, and the flexibility it gives you with your deposit portfolio, I know you said you had some inflows this quarter. How much flexibility is there with that?

Are there more deposits that could come on? Does it depend on new relationships that are booked? How do you think about that in terms of how it enables you to manage your deposit costs?

Stephen Gordon: It's a combination. Some of it is from new relationships that come on. Some of it is, remember we did -- we had bulk transfers last year and those come over initially or came over initially without cash related balances, and those cash related balances were now seeing growth. We saw growth in the fourth quarter and we hope to see growth as we continue into 2018.

Jacquelynne Bohlen: OK, so it still provides you with a good amount of flexibility then?

Stephen Gordon: Yes. Yes, and it still remains at a 2 basis points cost of deposit.

Jacquelynne Bohlen: OK. And do you -- I know you said that you expect deposit cost to increase, but at a slower clip than loans. How do you think about that 2 basis points on the PENSCO funds?

Stephen Gordon: It's really not -- we've not seen it to be rate sensitive and obviously, we'll keep an eye on it and continue doing all sorts of analyses around it , but there's a purpose to those accounts and it's really the holding of alternative assets in one’s IRA retirement account and the individual average account is not all that large nor rate-sensitive from a cash standpoint. And the cash is generally on balance transitioning perhaps between investments or perhaps just remaining as a cash balance.

Operator: Our next question comes from the line of Chris York from JMP Securities.

Christopher York: So your outlook excluded comments on core fee income, which made up about 20 percent of total revs in '17. So can you give us an update or maybe some color on new businesses qualitatively, and then maybe how you're thinking about how they will contribute to revs in 2018.

Kevin Thompson: Yes, you bet. We take a conservative view of our fee income businesses. They're clipping on at a good pace.

Again, some of those businesses can be a little cyclical, but on a yearly basis, our Merchant Bank performed a little bit better than it did the prior year. And so we expect PENSCO to clip along at a very solid pace, Merchant Banking also, but again on a -- looking at an annual basis, a little bit volatile.

And other elements of that income were benefiting from BOLI income for instance, it's very consistent however we added to our BOLI portfolio in the third quarter so we see a run rate increasing there. And deposit fee income being very consistent through the year.

Stephen Gordon: As well as our Escrow and Exchange division continues to provide a run rate of around that $1.6 million, $1.7 million a quarter and PENSCO continues to run just under that $7 million a quarter kind of run rate in terms of that trust administrative fee income and then treasury management fee income.

We've got a tremendous amount of effort around the growing of our traditional C&I business, which comes with treasury management fee income. So as the contribution becomes greater in 2018 from our traditional C&I business, so too would the contribution be from treasury management.

Kevin Thompson: And I'll mention one last item that caused us a little bit of volatility and noise is our warrant valuation, which is really, was an increase in the third quarter, a decrease this quarter, almost nets out, but that will cause a little bit of noise quarter-to-quarter.

Christopher York: Got it. That color is very helpful. And then second question probably more directed to Stephen. It's kind of just taking a step back and thinking about the strategic vision. You sold some branches in '17, I think a couple of them in Washington and you placed the focus on enhancing the infrastructure throughout the year.

So maybe in light of these activities, could you update us on how you're thinking about growth plans longer term? And then maybe geographical focus because, historically, we had thought the goal was for Opus to become a super regional bank.

Stephen Gordon: So we're not going to take our eyes, and I'm just going to give you a little backdrop as I go into that. We're not going to take our eyes off of the disciplines that we've put into place over the course, or the enhanced disciplines that we put into place over the course of 2017 in all those risk management related areas that I mentioned.

Additionally, we're going to be really looking at it continually. I think this may be the part of the culture of the firm that we continually look at the G&A infrastructure and look for opportunities to improve and strengthen the operating leverage of the company.

And that takes into account that the banking industry is evolving so rapidly, also around the use of branches so we may -- it's likely we're going to continue always looking at our FTE support for the branch infrastructure as well as the actual branch infrastructure itself and look for more ways to become more efficient around them.

Additionally, we're going to be looking at our overall operation and certain business lines and figure out how to make them even more efficient.

But as far as growth looking forward, we're really feeling good around all the accomplishments from 2017, our capital position, our concentrations, our overall risk management, internal audit, compliance, portfolio management, credit administration.

And that really puts us in a position to be more on offense now as we head into 2018 and really be thinking about the growing of the businesses and the core businesses, which includes all of our lending businesses, depository businesses, where those two are linked together. Some of them are separate, meaning that some of them are really heavily focused on loan growth or loan originations.

Some of them are focused heavily on specialty deposit related origination and then a number of them overlap and enable even greater synergies to exist between those divisions, which ends up resulting in not just growth in loans and deposits, but also related fee income. So we're really going to be focusing on those core businesses at the moment. We don't really see starting new lines of business.

We really see ourselves now being in a position to add more bankers into these divisions and continue to feel more confident about the ramping up of each of these business lines.

We're going to stay within our geographic footprint. I don't see us expanding geographies at this point.

It's not something that we've really taken on at the board level for potential discussion, but really focusing on the very meaningful core markets that we're in and more optimizing our -- what we get out of those markets in terms of market share and profitable business out of those markets.

Christopher York: That's very helpful, and I recognize we can spend the next 30 minutes talking about strategy. It's interesting with your comment on offense and staying with a focus on the core businesses. We've historically seen some tuck-in acquisitions, is that something that could be a possibility conceivably in this year? Or is that maybe longer term?

Stephen Gordon: I think that would more depend on where the stock is. At the moment, it's not like we're sitting on the strongest currency.

I think that we need to have the earnings come through and have the market appreciate the potential and realization of these earnings as we go forward, but our eyes and ears are always open, but we're extremely focused on the core business and growing that core business.

Operator: Our next question comes from the line of Tim O'Brien from Sandler O'Neill and Partners.

Timothy O’Brien: One other follow-up, page -- slide deck 11, asset sensitivity slide, upper right-hand corner, that simulation chart that you put in there.

Does that assume with the delayed benefit, 7.9 percent up -- to increasing NII from up 100 basis points scenario, those numbers, does it assume any earning asset growth? Or is it static balance sheet assumption that drives those numbers?

Kevin Thompson: That's a static balance sheet assumption.

Operator: Our next question comes from the line of Jackie Bohlen from KBW.

Jacquelynne Bohlen: Just one quick follow-up, and I apologize if I missed this in the prepared remarks. When we think about the dividends, I know in the past, it's been something that's been evaluated on a quarterly basis and there was upward fluctuation to that. Is this a similar attitude to it or should we consider this to be a regular dividend rate?

Stephen Gordon: Well, what I've said during 2017 is we would pay a dividend commensurate with how we feel about risk, capital, concentrations, and earnings, and our going into 2018 giving -- given all the constructive work and accomplishments of 2017, we feel confident now initiating that $0.10 dividend and we'll evaluate what level of that dividend should be as we progress through 2018.

So that's something we would continue to evaluate in terms of what that level of dividend should be through discussions at the board and determine where that dividend should go.

Jacquelynne Bohlen: OK, so fairly unchanged in terms of your stance from where you've been in the past?

Stephen Gordon: In terms of how we evaluate it?

Jacquelynne Bohlen: Yes.

Stephen Gordon: Yes.

Operator: We have no further questions in queue. I'll turn the call back to Stephen Gordon for final remarks.

Stephen Gordon: Thank you, and we appreciate everybody being on the call. We look forward to, as we head through 2018, having very transparent open communication and frequent communication. Thank you very much.

Operator: This concludes today's conference call. You may now disconnect.

END