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PRESENTATION

Operator

Good morning, my name is Michelle, and I will be your conference operator today. At this time, I would like to welcome everyone to the Opus Bank Quarterly Earnings Conference Call. (Operator Instructions)

I would now like to turn the call over to Mr. Brett Villaume, Director of Investor Relations. Please go ahead.

Brett Gerard Villaume - *Opus Bank - Senior VP & Director of IR*

Thank you, Michelle. Good morning, and welcome to Opus Bank's Investor Webcast and Conference call.

Today, I'm joined by Paul Greig, Chairman of the Board, Interim Chief Executive Officer and President; Brian Fitzmaurice, Vice Chairman and Senior Chief Credit Officer; and Kevin Thompson, Executive Vice President and Chief Financial Officer.

Our discussion today will cover the company's performance during the fourth quarter of 2018 and information contained in the earnings press release issued earlier this morning. A slide show presentation that accompanies today's call is available on the Opus Bank investor web page 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 8 of this morning's release.

Today's call will include a question-and-answer session following the discussion. (Operator Instructions)

Now I will turn the call over to Paul Greig, Chairman, Interim CEO and President.

Paul G. Greig - *Opus Bank - Chairman, Interim CEO & President*

Thank you, Brett. Good morning to everyone and thanks for attending today's conference call. Before we begin talking about our results for the fourth quarter and the full year of 2018, let me first take a moment to provide background on myself.

As you are likely already aware, I'm Chairman of the Board of Opus Bank and have served in that capacity since January 2018. I joined the Board of Opus Bank in April 2017 and was named Lead Independent Director in May of '17. My background includes having previously served as Chairman, President and CEO of FirstMerit Corporation, which is a bank that grew from $10 billion in assets to over $26 billion in assets during my tenure.

I was also a Director of the Federal Reserve Bank of Cleveland and was a Vice President and member of the Federal Reserve System's Federal Advisory Council. In addition to my duties as a Board member, I am also currently serving as Interim CEO and President of Opus, following the resignation of our former CEO in November of last year.

As we previously announced, the Board of Directors has retained Korn Ferry, a leading executive search firm, to identify a permanent CEO. I'm pleased to comment that the search is progressing favorably as a number of highly qualified candidates have expressed interest in the position.

While acting in my Board positions, and now also interim CEO, I have observed notable progress in the company over the past 22 months. A significant derisking of the company has occurred as $915 million of enterprise value loans have been reduced to $122 million as of year-end 2018. Brian Fitzmaurice and his team have done a tremendous job in reducing this portfolio in a cost-effective manner.

The credit culture throughout the company has successfully transitioned to a traditional culture with an appropriate risk appetite. The Commercial Real Estate Banking team, which includes our multifamily bankers, continues to deliver a high volume of well-structured loan opportunities. The new middle market Commercial and Specialty Banking teams are actively calling on prospective clients, building their pipelines and experiencing success with new customer conversions.

In the 2 months that I've been in this role, I've met almost all of our commercial and real estate bankers and have been impressed with the talent that has been attracted to the company. Our retail banking segment provides Opus with all-important deposit funding. Our PENSCO subsidiary, Escrow and 1031 exchange businesses, Municipal Banking and Fiduciary Banking divisions also provide meaningful fee income and a diversified low cost source of deposits.

Overall, I found the bankers throughout the company to be energetic and positive. They are competing every day and strive to win in each market that we serve. At this point, I'd like to make some brief comments about our results for the fourth quarter and the full year 2018.

Earlier this morning, we announced a net loss of $6.9 million or $0.20 per share for the fourth quarter of 2018 and reported net income of $30.9 million or $0.81 per diluted share for year-end 12/31/2018. We saw solid core earnings performance in the fourth quarter, which included higher net interest income, net interest margin expansion, flat quarter-over-quarter operating expenses and significant reductions in enterprise value and criticized loans.

Included in our fourth quarter and full year results was a restructuring charge related to the previously announced CEO transition, corporate strategy initiatives and actions designed to make Opus more profitable and efficient. The impact to our net income for the fourth quarter was $17.2 million or $0.47 a share. Kevin Thompson will go into more specifics about our core earnings performance as well as the component costs included in the restructuring charge.

As Interim CEO, I am fully engaged in the operations of the company and have been working closely with the executive management team to lead the day-to-day activities of the company. There have been no changes in the leadership team at Opus during this time, and generally, it has been business as usual for us. Our long-term goals and strategic direction have not changed, and we continue to execute on our near-term priorities. While I comment on business as usual, I want to stress that all executives have a heightened focus on the need to deliver superior returns to our shareholders. The executives are constantly examining strategies and tactics to improve our performance. I thank my colleagues for their dedication and I look forward to working with them during my tenure as interim CEO. I will continue to support them when I transition back to solely serving as Chairman of the Board.

I'll now turn the discussion over to Kevin Thompson, our Chief Financial Officer, to go into more detail on our financial performance. Kevin?

Kevin L. Thompson - *Opus Bank - Executive VP & CFO*

Thank you, Paul. Turning to Slide 4, average loans increased $68 million or 1.3% during the fourth quarter, while period-end balances increased $5 million.

New loan fundings in the fourth quarter measured $412 million, a 5% decrease from the prior quarter, compared to total payoffs of $344 million, which included $59 million in planned loan exits. Excluding the effect of planned exits during the quarter, loans increased at a 5% annualized rate.

Multifamily loans grew by $76 million compared to a $44 million decrease in C&I loans after $59 million in planned exits. 21% of new loan fundings were C&I loans and the remaining were primarily real estate related loans.

Total loan yields increased 7 basis points in the fourth quarter to 4.31%, primarily driven by the benefit from the Fed rate increase in September and the positive impact of loan repricing as well as lower lost interest on nonaccrual loans compared to the prior quarter.

On Slide 5, we show the balance of cash and investment securities, which decreased 14% from the prior quarter due to a $279 million decrease in cash and cash equivalents, offset by an increase in investment securities of $63 million. The decrease in cash and cash equivalents was driven by deposit reductions during the quarter. The yield on investment securities increased 51 basis points to 2.55%, primarily driven by lower premium amortization during the quarter.

During the fourth quarter, we repositioned our investment securities portfolio through the sale of $315 million of available-for-sale securities yielding 2.3%, and the proceeds were reinvested in investment-grade securities having an approximate yield of 4.0%. The repositioning served to improve our overall portfolio yield, while the average duration of our securities portfolio increased modestly from 3.3 to 3.5 years. Shareholders' equity was potentially unaffected by the repositioning as the unrealized loss position on the sold securities were run through the income statement, and we estimate that the earn-back period on the transaction is less than 2 years. Cash and investment securities comprise 19% of assets as of year-end.

Turning to Slide 6, the average balance of deposits increased by $14 million from the prior quarter. Period-end deposits decreased $190 million in the fourth quarter or 3%. Our cost of deposits rose only 8 basis points to 0.79%, which is a decrease from the pace of increase last quarter. With rates rising, deposit costs remained in line with our expectations as we continue to focus on our relationship approach to manage deposit pricing to attract and retain customers. With careful management of pricing, we have been able to drive accumulative cycle to date deposit beta of only 14%.

Our loan-to-deposit ratio increased slightly to 87% at the end of the quarter.

Turning to Slide 7, net interest income increased 3.2% during the fourth quarter to $50 million, primarily driven by the benefit of the Fed rate hike in September and lower lost interest on nonaccrual loans, in addition to higher average balances and yield on investment securities. This was partially offset by the increase in the cost of deposits and the effect of planned loan exits, which had a weighted average rate of 6.76% in the fourth quarter. Planned exits continue to negatively affect our NIM as well as the growth for our loan balances, but do serve to decrease our potential future credit volatility.

Net interest margin increased 9 basis points from the prior quarter to 3.07% as earning asset yields outpaced our funding costs.

Proceeding to Slide 8, noninterest income was $3.4 million for the fourth quarter, down from $11.5 million from the prior quarter. This was due primarily to the loss on sales of securities associated with our securities repositioning. Excluding this amount as well as other small sale-related gains and losses during the fourth quarter, our noninterest income would have been $13.3 million, an increase of 16% from the prior quarter.

Our diverse sources of noninterest income saw consistent contributions during the quarter and noninterest income made up 21% total revenues, excluding the loss on sale of assets, loans and investment securities. Other noninterest income was comprised of revenues from our Merchant Banking division of $1.6 million compared to $118,000 in the third quarter as well as a net decrease in equity warrant valuations.

Turning to Slide 9, our noninterest expense increased $10 million from the prior quarter to $54 million but included approximately $10.5 million of expenses related to the restructuring charge. Excluding these items as well as $525,000 of expenses related to severance and retention costs and making the office optimization during the third quarter of 2018, noninterest expense was flat compared to the prior quarter.

During the fourth quarter, we implemented a cost reduction initiative that included reductions in headcount and other expenses that we believe will make Opus more efficient to help contain operating expense growth in 2019. We will be reinvesting much of the anticipated savings, which will allow us to hold year-over-year expenses relatively flat while continuing to fund necessary infrastructure enhancements that will improve our customer experience.

Our efficiency ratio was 100% in the fourth quarter of 2018 compared to 72% for the third quarter, driven by the $20.4 million of restructuring-related expenses. Excluding these costs, our efficiency ratio would have been 67.7% for the quarter.

On Slide 10, we show our regulatory capital ratios at quarter-end, including Tier-1 leverage and our total risk-based capital ratio, which both decreased slightly to 9.69% and 15.29%, respectively. By comparison, tangible book value per as converted common share, which already included unrealized losses on the securities we sold, increased $0.13 to $17.81. Our tangible common equity ratio increased from 9.05% to 9.41% from the fourth quarter. The Board of Directors authorized an $0.11 dividend payment to common and preferred shareholders during the first quarter of 2019.

On Slide 11, we display some of our asset liability metrics, which include the duration of key balance sheet items and our simulation of net interest income, assuming an instantaneous parallel shift in interest rates.

As I mentioned earlier, we have been able to drive accumulative cycle to date deposit beta of only 14%. We are closely monitoring our deposits in our markets and our Asset Liability Committee continually assesses our position to determine the appropriate strategy.

I will now turn the discussion over to Brian Fitzmaurice, Vice Chairman and Senior Chief Credits Officer, to go into more detail on our loan portfolio and credit metrics.

Brian Fitzmaurice - *Opus Bank - Co-Vice Chairman & Senior Chief Credit Officer*

Thank you, Kevin. This morning, I will review our fourth quarter credit performance, which resulted in improved credit metrics across the board with the exception of charge-offs. On the positive side, during the fourth quarter, enterprise value loans decreased by 33.9% or $62.5 million to $121.9 million.

Special mention loans decreased by 41.4% or $29.3 million. Substandard assets declined by 4.9% or $5.3 million. Total criticized loans declined by 19% or $34.8 million. Nonaccrual loans decreased by 37.1% or $17 million. Planned exits totaled $59.2 million in the fourth quarter, and we now have no remaining balances of technology loans.

Nonperforming assets measured 0.39% of total assets as of December 31, down from 0.61% from the prior quarter. A portion of the reduction in our problem loans was due to gross charge-offs of $14.6 million and net charge-offs of $12 million. The culmination of all the activity resulted in $7.7 million in loan loss provisions.

I will now provide some data points on our enterprise value loan portfolio. Consistent with our third quarter, 96% of our charge-offs during the fourth quarter were attributed to substandard risk-weighted enterprise value loans. EV loan relationships decreased from 31 as of September 30, to 19 as of December 31. Criticized EV loans decreased by 47.2% or $29.6 million from $62.6 million down to $33 million. Nonaccrual EV loans decreased 54.9% or $15.1 million from $27.5 million down to $12.4 million. There were no new nonaccrual EV loans during the quarter and approximately 73% of the EV portfolio is pass rated compared to 66% in the prior quarter. We remain highly focused on reducing our EV loans.

Regarding total criticized loans, the net decrease in the fourth quarter was primarily driven by a $40.8 million decrease in C&I loans, partially offset by a $7.1 million increase in real estate secured loans. C&I loans comprised $12 million of loans, upgraded out of criticized categories, and real estate loans comprised $8.4 million. While C&I downgrades into criticized categories were $9.3 million and real estate loan downgrades totaled $24.9 million during the quarter, which were predominantly Healthcare Provider loans secured by real estate.

As I previously mentioned, we recorded a provision for loan losses of $7.7 million compared to $8.2 million provision expense last quarter and a provision in the fourth quarter of 2017 of $3 million. The material factors driving the provision this quarter were net charge-offs of $12 million, risk-weighting migration of $2.8 million, higher loss factors of $2.1 million and changes in portfolio mix and new loan fundings during the quarter of $1.9 million. These were partially offset by a decline in reserves of $6.6 million due to planned exits of loan relationships and reductions to specific reserves of $4.5 million.

As of December 31, 2018, our allowance for loan losses totaled $54.7 million or 1.06% of loans, a reduction of $4.4 million or 8 basis points from the prior quarter, and we had $4.3 million of specific reserves or 15.5% of nonaccrual loans compared to $8.8 million or 19.6% in the third quarter of 2018. Along with general reserves on C&I loans of $28.2 million, the reserve coverage ratio was 3.3% on our total C&I portfolio at year-end.

I would be remiss if I didn't remind you that notwithstanding our progress, we still have a $122 million in enterprise value loans, whose performance can change rapidly, and therefore, we are still subject to credit volatility.

I am pleased to inform you that for the first time since joining Opus back in 2016, I am optimistic about our next year's gross charge-off performance. I am also optimistic, our credit metrics will be more aligned with peer bank performance in the coming year.

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

Kevin L. Thompson - *Opus Bank - Executive VP & CFO*

Thank you, Brian. On Slide 16, we present a summary of our outlook for the future, assuming continuation of the current economic environment. We estimate mid- to high single-digit loan growth in 2019. Deposit rates are expected to continue to increase as short-term rates increase, although we anticipate this will be at a moderating pace. We estimate our net interest margin for the full year 2019 to be approximately 3.10%. We continue to anticipate the headwinds of elevated prepayments, planned exits in flattening yield curve and competitive deposits and loan pricing in the coming quarters.

We are continuing to focus on disciplined expense management and revenue growth initiatives to increase our operating leverage. We expect that our efficiency ratio for the full year 2019 will be approximately 70% with quarterly levels gradually decreasing throughout the year.

Regarding credit quality, as Brian mentioned, we expect net charge-offs to decrease in 2019 and credit metrics will be more aligned with peer bank performance in the coming year. We remain focused on maintaining a strong risk management infrastructure, including preparing for the implementation of CECL. We anticipate that our effective tax rate will be approximately 24% for the full year 2019.

Finally, as stated previously, our Board of Directors approved the payment of a quarterly cash dividend of $0.11 per common share for the first quarter of 2019, unchanged from the prior year. We do not target a specific payout ratio but evaluate our dividend based on quarterly earnings, overall profitability, our risk profile and capital levels and market conditions.

This concludes our prepared remarks. I'll now hand the floor back over to Brett.

Brett Gerard Villaume - *Opus Bank - Senior VP & Director of IR*

Thank you, Kevin. And thank you all for joining our earnings conference call today. Operator, would you please open the line for questions?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from Jackie Bohlen from KBW.

Jacquelynne Chimera Bohlen - *Keefe, Bruyette, & Woods, Inc., Research Division - MD, Equity Research*

I wanted to start us off with expenses. Just first off, if you have the general location of where those 3 restructuring charges that were called out were located? I'm assuming this transition costs are in compensation but just if any of that is elsewhere and where the other 2 charges might be located?

Kevin L. Thompson - *Opus Bank - Executive VP & CFO*

Yes, you bet. So primarily, as you point out, related to severance and benefits, but there also were some consulting and legal expenses associated with that.

Jacquelynne Chimera Bohlen - *Keefe, Bruyette, & Woods, Inc., Research Division - MD, Equity Research*

Okay. And do you know the amount that was in legal?

Kevin L. Thompson - *Opus Bank - Executive VP & CFO*

I don't have that with me, Jackie.

Jacquelynne Chimera Bohlen - *Keefe, Bruyette, & Woods, Inc., Research Division - MD, Equity Research*

Okay. And then looking to the future, you had mentioned that year-over-year expenses would be fairly flat, is that excluding the restructuring charges from 2018's base number?

Kevin L. Thompson - *Opus Bank - Executive VP & CFO*

Yes, correct, on what -- we believe it's more of a core basis that would be relatively flat.

Jacquelynne Chimera Bohlen - *Keefe, Bruyette, & Woods, Inc., Research Division - MD, Equity Research*

Okay. So then essentially, the roughly $43 million give or take a quarter is a good starting base for where you'd like to be in 2019?

Kevin L. Thompson - *Opus Bank - Executive VP & CFO*

I think on average, that's a good estimate. Of course, we have some seasonal higher expenses towards the first part of the year and that generally decreases throughout the year, but that's probably a good estimate.

Jacquelynne Chimera Bohlen - *Keefe, Bruyette, & Woods, Inc., Research Division - MD, Equity Research*

Okay. Understood. And what are some of the initiatives that have been undertaking just in terms of cost savings that you're realizing? And where you plan to redeploy those savings into?

Kevin L. Thompson - *Opus Bank - Executive VP & CFO*

You bet. Some have been -- we have some severance expenses. We identified positions throughout the company that we could do without and operate in a more efficient basis. We looked at branch optimization, which we continually do, and we will continue to do so. And we looked across our entire company and our strategy, how we view it, anything on the table that we could think about to make ourselves more aligned with peers as well as to increase our operating leverage. And all of this, we believe, will help us both improve our vendor expenses, but also over time reinvest this in technology and customer experience improvements.

Jacquelynne Chimera Bohlen - *Keefe, Bruyette, & Woods, Inc., Research Division - MD, Equity Research*

Okay. So technology and customer experiences is where the cost savings will go back into?

Kevin L. Thompson - *Opus Bank - Executive VP & CFO*

Yes. We believe. We want some flexibility in that as we're defining our strategy over time, but for now, that's one of the buckets we expect.

Jacquelynne Chimera Bohlen - *Keefe, Bruyette, & Woods, Inc., Research Division - MD, Equity Research*

Okay. That's helpful. Just one more last one for me and then I'll step back. Do you have the dollar value of premium amortization between 3Q and 4Q?

Kevin L. Thompson - *Opus Bank - Executive VP & CFO*

Yes, give me one moment, and you're asking dollar amortization?

Jacquelynne Chimera Bohlen - *Keefe, Bruyette, & Woods, Inc., Research Division - MD, Equity Research*

On the securities. Premium amortization was cited as a benefit to the quarter. So I'm just wondering what the dollar variance was between -- either dollar or basis point variance between the 2 quarters.

Kevin L. Thompson - *Opus Bank - Executive VP & CFO*

You bet, the variance was about $900,000 less in Q4.

Operator

Your next question comes from Matthew Clark from Piper Jaffray.

Matthew Timothy Clark - *Piper Jaffray Companies, Research Division - Principal & Senior Research Analyst*

Just looking at the efficiency ratio guide of 70% and trying to kind of back into what you might be assuming. If you assume expenses are flat year-over-year at $175 million, which I think is the operating number from last year, and even if you keep the balance sheet flat off the fourth quarter and dial in your $310 million margin, I mean, you were talking about an efficiency ratio that should easily be 69%, if not a little better. So I'm just -- just want to make sure we're on the same page and not missing something?

Kevin L. Thompson - *Opus Bank - Executive VP & CFO*

Yes, that's correct. There is upside, there is also a downside to these. We continue to face the headwinds of elevated prepayments on both our loan and securities portfolio and planned exits of flattening yield curve, which really impacts our loan book and competitive deposits and loan pricing so that's probably the other piece that you're missing there.

Matthew Timothy Clark - *Piper Jaffray Companies, Research Division - Principal & Senior Research Analyst*

Okay. Okay, great. And then can you give us a sense for where pricing is on new multifamily loans?

Kevin L. Thompson - *Opus Bank - Executive VP & CFO*

Yes. It's in -- on average over the past quarter, we told you a year ago was in the high 3s, low 4s. We're more in the high 4.60s at this point. But again, that's highly impacted by a flattening yield curve.

Matthew Timothy Clark - *Piper Jaffray Companies, Research Division - Principal & Senior Research Analyst*

Yes. Okay. And then would you happen to have the spot rate or the kind of end-of-period rate on interest-bearing deposits at the end of the year?

Kevin L. Thompson - *Opus Bank - Executive VP & CFO*

Yes, hold one moment and we'll get that for you. Spot rate is 82 basis points.

Matthew Timothy Clark - *Piper Jaffray Companies, Research Division - Principal & Senior Research Analyst*

Okay. And then just on your commentary around credit being more in line with peers this year, can you speak to what do you mean specifically? Are you talking about the level of nonperformers? Are you talking about the level of net charge-offs, just a little more color there?

Brian Fitzmaurice - *Opus Bank - Co-Vice Chairman & Senior Chief Credit Officer*

Yes, so it's Brian Fitzmaurice. Yes, I'm thinking of nonaccruals, net charge-offs, obviously, we've now been in the past and I think we're just more conforming to the norm. Line of sight into the portfolio is just at a better place, our real estate portfolio considers -- continues to be very strong.

Operator

Your next question comes from Tim Coffey from FIG Partners.

Timothy Norton Coffey - *FIG Partners, LLC, Research Division - VP & Research Analyst*

I wondered if you have any further bond restructurings to go in the first quarter?

Kevin L. Thompson - *Opus Bank - Executive VP & CFO*

We don't plan any further restructurings. We've been watching this for a while. As you know, we've had subpar performance in some portion of our bond portfolio. It's analysis -- an analysis you do of the earn-back period you would get on taking the loss now and the duration of those bonds. And so I think we have identified those underperforming bonds, and we'll watch this over time, but don't anticipate that we have any underperforming bonds at this point compared to their actual duration.

Timothy Norton Coffey - *FIG Partners, LLC, Research Division - VP & Research Analyst*

Okay. Great. And, Brian, just looking at your outlook on the credit quality for 2019, does that just kind of -- that forecast include the expectation that enterprise value loans will just continue to roll off as they have been? Or is there a more aggressive approach to deal with them?

Brian Fitzmaurice - *Opus Bank - Co-Vice Chairman & Senior Chief Credit Officer*

We've always been extremely aggressive. So we only have the visibility into our side of action, so it take -- it's a holistic view.

Timothy Norton Coffey - *FIG Partners, LLC, Research Division - VP & Research Analyst*

Okay. Great. And then if I can slip back to Kevin, again. Looking at kind of the deposit cost, last 3 quarters have been fairly similar. I'm assuming it's a function of a competition in your footprint, have you seen any change in the competition for deposits?

Kevin L. Thompson - *Opus Bank - Executive VP & CFO*

I think there is systemic pressure across the country, including the West Coast in deposit costs. There is a small movement we've seen as customers are starting to move their noninterest-bearing accounts to higher-yielding accounts on a slow basis. Although, I would just correct you on one thing, on an average basis, our average increase in cost of deposits has actually been fairly minor if you average it over the past 3 quarters. So I've seen a lot of banks increasing 15 basis points this quarter, we only increased 8 basis points. But we absolutely are facing pressure in deposit pricing and watching that closely.

Timothy Norton Coffey - *FIG Partners, LLC, Research Division - VP & Research Analyst*

Yes, so on a relative basis, your deposit increases and costs have not been on par with some of the other institutions that we've seen for sure. And then just one last question, I apologize if I missed this but the step down in average diluted shares this quarter, what was that a result of?

Kevin L. Thompson - *Opus Bank - Executive VP & CFO*

When you experience a loss, the calculation changes because the loss is dilutive to EPS. So you actually use basic shares as opposed to when you're projecting, for instance, may be a core adjusted EPS, you would use the full diluted shares. Just a difference in calculation.

Operator

And your next question comes from Tim O'Brien from Sandler O'Neill.

Timothy O'Brien - *Sandler O'Neill + Partners, L.P., Research Division - MD of Equity Research*

Just can you give a little color on the decline in deposit balances that was attributable to, what, PENSCO, Fiduciary and Retail and also, specifically, on noninterest-bearing deposit balance shift there, decline there?

Kevin L. Thompson - *Opus Bank - Executive VP & CFO*

And what was the last part of your question, Tim? I missed that.

Timothy O'Brien - *Sandler O'Neill + Partners, L.P., Research Division - MD of Equity Research*

So noninterest-bearing was down as well. Was that -- were those -- I'm assuming those were PENSCO deposits for the most part?

Kevin L. Thompson - *Opus Bank - Executive VP & CFO*

Yes -- no, actually, the noninterest-bearing PENSCO sits in the interest-bearing bucket at a very low 2 basis point earning assets. So if you -- just to point out on an average basis, our deposits were actually up slightly in the quarter. So we have some inflows and outflows cyclically that will happen, but on an average basis, we're actually very comfortable with our deposit base. For the end of the quarter, there were some outflow of noninterest-bearing deposits, some of those come back over time, but we're not concerned about that at all, and we're not experiencing pricing pressure in areas such as PENSCO, which is very specialized product.

Timothy O'Brien - *Sandler O'Neill + Partners, L.P., Research Division - MD of Equity Research*

So the PENSCO base was -- how stable was that this quarter, the deposit base there?

Kevin L. Thompson - *Opus Bank - Executive VP & CFO*

The PENSCO balance did decrease by about $100 million as various dynamics are happening there, including different opportunities of our customers for investments. Our customers hold different private equity that can go public, different dynamics can happen within that portfolio.

Timothy O'Brien - *Sandler O'Neill + Partners, L.P., Research Division - MD of Equity Research*

So that activity, as far as Opus management is concerned, that was all passive, was all investor-driven, you guys didn't make any changes in PENSCO that affected that to any degree?

Kevin L. Thompson - *Opus Bank - Executive VP & CFO*

We're working with our clients to ensure that they are utilizing the best products possible to as -- on an ongoing basis to work with us. So we definitely are working with clients to see if there are better opportunities for their cash usage.

Timothy O'Brien - *Sandler O'Neill + Partners, L.P., Research Division - MD of Equity Research*

And then one last question just for Brian, just a clarification question. You said optimistic about next year's gross charge-offs, did you mean 2019?

Kevin L. Thompson - *Opus Bank - Executive VP & CFO*

Correct.

Operator

I have no further questions in queue. I'll turn this call back over to presenters for closing remarks.

Brett Gerard Villaume - *Opus Bank - Senior VP & Director of IR*

Thank you, everyone, for joining our conference call today. And we look forward to speaking with you again in the near future.

Operator

Thank you, everyone. This will conclude today's conference call. You may now disconnect.
