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 31, 2019 (January 28, 2019)

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 28, 2019, Opus Bank (the "Company") hosted a conference call and webcast to discuss its financial results for the quarter and year ended December 31, 2018. The conference call transcript is attached hereto as Exhibit 99.1. A replay of the call is available and will be available until February 28, 2019. 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 correction is included below:

- A Company representative indicated that our Board of Directors approved the payment of quarterly cash dividend of $0.11 per common share for the first quarter of 2019, and erroneously stated that was unchanged from the prior year. The Bank's Board of Directors approved the payment of quarterly cash dividend of $0.11 per common share for the first quarter of 2019, which is unchanged from the prior quarter. (see page 10 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's Fourth Quarter 2018 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 31, 2019

Opus Bank

By: /s/ Kevin L. Thompson
Name: Kevin L. Thompson
Title: Executive Vice President, Chief Financial Officer

Exhibit No. 99.1

Opus Bank's Fourth Quarter 2018 Conference Call Transcript

Opus Bank

Moderator: Brett Villaume
January 28, 2019
8:00 a.m. PT

Operator: Good morning. My name is Michelle and I will be your conference operator today. At this time, I would like to welcome everybody to the Opus Bank Quarterly 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, please press the pound key.

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

Brett Villaume: 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. 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; by clicking on that triangle, it opens and close the Q&A dialogue box.

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

Paul Greig: Thanks, 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're 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 the 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 am 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 de-risking 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 at 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 two 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're 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 December 31, 2018.

We saw a 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 in 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 Thompson: Thank you, Paul. Turning to Slide 4, average loans increased $68 million or 1.3 percent during the fourth quarter, while period end balances increased by $5 million. New loan fundings in the fourth quarter measured $412 million, a 5 percent 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 percent annualized rate. Multifamily loans grew by $76 million, compared to a $44 million decrease in C&I loans after $59 million in planned exits. Twenty-one percent of new loan fundings were C&I loans and the remaining were primarily real estate related loans.

Total loan yield increased 7 basis points in the fourth quarter to 4.31 percent, 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 percent 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 percent, 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 percent, and the proceeds were reinvested in investment-grade securities having an approximate yield of 4.0 percent. The repositioning served to improve our overall portfolio yield, while the average duration for our securities portfolio increased modestly from 3.3 to 3.5 years.

Shareholders' equity was essentially 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 two years. Cash and investment securities comprised 19 percent 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 percent.

Our cost of deposits rose only 8 basis points to 0.79 percent, 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 a cumulative cycle-to-date deposit beta of only 14 percent. Our loan-to-deposit ratio increased slightly to 87 percent at the end of the quarter.

Turning to Slide 7, net interest income increased 3.2 percent during the fourth quarter to $50 million, primarily driven by the benefits 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 loans exits, which had a weighted average rate of 6.76 percent in the fourth quarter.

Planned exits continue to negatively affect our NIM as well as the growth for 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 percent 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 in 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 percent from the prior quarter.

Our diverse sources of noninterest income saw consistent contributions during the quarter, and noninterest income made up 21 percent 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 banking 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 and 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 percent in the fourth quarter of 2018, compared to 72 percent 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 percent 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 percent and 15.29 percent, 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 percent. Our tangible common equity ratio increased from 9.05 percent to 9.41 percent for 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 a cumulative cycle-to-date deposit beta of only 14 percent. We're closely monitoring our deposits and 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 Credit Officer, to go into more detail on our loan portfolio and credit metrics.

Brian Fitzmaurice: 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 percent, or $62.5 million, to $121.9 million; special mention loans decreased by 41.4 percent, or $29.3 million; substandard assets declined by 4.9 percent, or $5.3 million; total criticized loans declined by 19 percent, or $34.8 million; nonaccrual loans decreased by 37.1 percent, 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 percent of total assets as of December 31, down from 0.61 percent 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 percent 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 percent, or $29.6 million, from $62.6 million down to $33 million; nonaccrual EV loans decreased 54.9 percent, 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 percent of the EV portfolio is pass-rated, compared to 66 percent 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 percent 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 percent, of nonaccrual loans compared to $8.8 million, or 19.6 percent, 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 percent 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 $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 Bank in 2016, I am optimistic about our next year's gross charge-off performance. I'm also optimistic that our credit metrics will be more aligned with peer bank performance in the coming year.

I'll hand the discussion back over to Kevin.

Kevin Thompson: 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 percent. We continue to anticipate the headwinds of elevated prepayments, planned exits, a flattening yield curve, and competitive deposit 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 percent, 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 percent for full year 2019.

Finally, as stated previously, our Board of Directors approved the payment of quarterly cash dividend of $0.11 per common share for the first quarter of 2019, unchanged from the prior quarter.[1] 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 Villaume: Thank you, Kevin. And thank you all for joining our earnings conference call today. Operator, would you please open the line for questions?

Operator: Certainly. At this time, if anybody would like to ask a question please press star one on your telephone keypad. Again, that would be star one on your telephone keypad.

Your first question comes from Jacquelynne Bohlen from KBW. Your line is open.

Paul Greig: Good morning Jacque.

[1] This response has been revised by the Company to correct the period referenced by the Company representative when discussing the dividend payment for the first quarter of 2019.

Jacque Bohlen: Good morning. I wanted to start us off with expenses. First off, if you had the general location of where those three restructuring charges-offs that were called out were located? And I'm assuming this transition cost is in compensation, but just if any of that is elsewhere and where the other two charges might be located?

Kevin Thompson: Yes, you bet. Those are primarily, as you point out, related to severance and benefits, but they're also were some consulting and legal expenses associated with that.

Jacque Bohlen: OK. And do you know the amount that was in legal?

Kevin Thompson: I don't have that with me, Jackie.

Jacque Bohlen: OK. 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 pace number?

Kevin Thompson: Yes. Correct. On what we believe is more of a core basis, it would be relatively flat.

Jacque Bohlen: OK. So then that – 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 Thompson: I think on average, that's a good estimate. Of course, we have some seasonal higher expenses in the first part of the year and that generally decreases throughout the year, but that's probably a good estimate.

Jacque Bohlen: OK. Understood. And what are some of the initiatives that have been undertaken, just in terms of cost savings that you are realizing and where you plan to redeploy those savings into?

Kevin Thompson: You bet. Some of them 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 in line with peers as well as to increase our operating leverage. And of 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.

Jacque Bohlen: OK. So technology and customer experience is where the cost savings will go back into?

Kevin Thompson: 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.

Jacque Bohlen: OK. That's helpful. Thank you. 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 Thompson: Yes, give me one moment – and you're asking dollar amortization…

Jacque Bohlen: On the securities. Premium amortization was sited 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 two quarters.

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

Jacque Bohlen: OK, thank you.

Kevin Thompson: You bet.

Operator: Your next question comes from Matthew Clark from Piper Jaffray. Your line is open.

Paul Greig: Good morning Matt.

Matthew Clark: Yes – good morning. Just looking at the efficiency ratio guide of 70 percent 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 3.10 percent margin, you're talking about an efficiency ratio that should easily be 69 percent, if not a little better.

So I'm just – just want to make sure we're on the same page and I'm not missing something?

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

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

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

Matthew Clark: Yes. OK. 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 Thompson: Yes, hold one moment, and we will get that for you. Spot rate is 82 basis points.

Matthew Clark: OK. And then just on your commentary around credit being more in line with peers this year, can you speak to what 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: This is Brian Fitzmaurice. I'm thinking of nonaccruals, net charge-offs – obviously, we've been elevated in the past and I think, we're just more conforming to the norm. Line of sight into the portfolio it's just in a better place, our real estate portfolio considers – continues to be very strong.

Matthew Clark: OK. Good, thank you.

Operator: Your next question comes from Tim Coffey from FIG Partners. Your line is open.

Paul Greig: Good morning Tim.

Timothy Coffey: (Inaudible). Yes, good morning, good morning gentlemen. We're wondering if you have any further bond restructurings to go in the first quarter?

Kevin Thompson: 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 portions of our bond portfolio.

It's analysis – an analysis you do of the earn-back period you would get on taking a 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 Coffey: OK. Great. Thank you. And Brian, just looking at your outlook on the credit quality for 2019, does that just kind of forecast – that forecast include the expectation of Enterprise Value loans will just continue to roll off as they happen? Or is there more of an aggressive approach to dealing with them?

Brian Fitzmaurice: You know, we've always been extremely aggressive. So, we only have visibility into our side of actions, so it's a holistic view.

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

Kevin Thompson: I think there is systemic pressure across the country, including the West Coast and deposit costs. There is a small movement, we've seen, as customers are starting to move their not interest-bearing accounts to higher-yielding accounts on a slow basis.

Although, I would just correct you on one thing, we – on an average basis, our average increase in cost of deposits has actually been fairly minor if you average it over the past three quarters. I've seen a lot of banks increasing 15 basis points this quarter, we only increased 8 basis points. But we absolutely are facing pressures in deposit pricing and watching that closely.

Timothy Coffey: Yes, sir. On a relative basis, here, 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 Thompson: When you experience a loss, the calculation changes because the loss is diluted 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.

Timothy Coffey: OK. Understood. Thank you very much. Those are my questions.

Operator: And your next question comes from Tim O'Brien from Sandler O'Neill. Your line is open.

Paul Greig: Hi Tim.

Timothy O'Brien: Good morning. Thanks for taking my question. 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 nonexperience deposit balance shift there, decline there?

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

Timothy O'Brien: So non-interest-bearing was down as well. Was that – were those – I'm assuming those were PENSCO deposits for the most part?

Kevin Thompson: No, actually, the non-interest-bearing – PENSCO sits in an interest-bearing bucket at a very low two 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 outflows of non-interest-bearing deposits, some of those come over time, we're not concerned about that at all and we're not experiencing pricing pressure in areas such as PENSCO, which is a very specialized product.

Timothy O’Brien: So the PENSCO base was – how stable was that this quarter, the deposit base there?

Kevin Thompson: 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: So that activity, as far as Opus management is concerned, that was all passive, was all investor driven, you guys wouldn't make any changes at PENSCO that affected that to any degree?

Kevin Thompson: We're working with our clients to ensure that they're 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: And then one last question just for Brian, just a clarification question. You said optimistic about next year's gross charge-offs? You mean 2019?

Brian Fitzmaurice: Correct.

Timothy O’Brien: That’s what I thought but just double-checking. Thanks a lot. I’ll step-back.

Operator: I have no further questions. Thank you. I will turn the call back over to presenters for closing remarks.

Brett Villaume: Thank 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.

END