



OPUS BANK

Financial Statements

December 31, 2010

(With Independent Auditors' Report Thereon)



KPMG LLP
Suite 2000
355 South Grand Avenue
Los Angeles, CA 90071-1568

Independent Auditors' Report

The Board of Directors
Opus Bank:

We have audited the accompanying balance sheet of Opus Bank (the Company) as of December 31, 2010, and the related statements of operations, changes in stockholders' equity, and cash flows for the period from October 1, 2010 to December 31, 2010. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Opus Bank as of December 31, 2010, and the results of its operations and its cash flows for the period from October 1, 2010 to December 31, 2010 in conformity with U.S. generally accepted accounting principles.

KPMG LLP

March 25, 2011

OPUS BANK

Balance Sheet

December 31, 2010

(In thousands, except share data)

Assets

Cash and due from banks	\$	3,878
Due from banks – interest bearing		509,684
Investment securities available for sale at fair value		48,292
Loans		103,991
Less allowance for loan losses		(734)
Loans, net		<u>103,257</u>
Premises and equipment, net		2,907
Goodwill		15,216
Core deposit intangible, net		4,986
Accrued interest receivable		364
Federal Home Loan Bank stock		2,962
Other assets		<u>1,996</u>
Total assets	\$	<u><u>693,542</u></u>

Liabilities and Stockholders' Equity

Deposits:		
Noninterest bearing	\$	66,194
Interest bearing		135,076
Time deposits:		
Under \$100,000		21,458
\$100,000 and over		<u>52,538</u>
Total deposits		275,266
Stock warrant liability		8,621
Federal Home Loan Bank advances		2,433
Accrued interest payable		102
Other liabilities		<u>1,554</u>
Total liabilities		<u>287,976</u>
Commitments and contingencies (note 15)		
Stockholders' equity:		
Preferred stock:		
Authorized 200,000,000 shares; issued 74,087 shares		68,615
Common stock, no par value per share:		
Authorized 200,000,000 shares; issued 19,879,020 shares		357,349
Additional paid-in capital		12,020
Accumulated deficit		(32,318)
Treasury stock, at cost – 9,454 shares		(165)
Accumulated other comprehensive income		<u>65</u>
Total stockholders' equity		<u>405,566</u>
Total liabilities and stockholders' equity	\$	<u><u>693,542</u></u>

See accompanying notes to financial statements.

OPUS BANK

Statement of Operations

Period from October 1, 2010 to December 31, 2010

(In thousands)

Interest income:	
Loans	\$ 2,170
Investment securities	31
Due from banks	287
Total interest income	<u>2,488</u>
Interest expense:	
Deposits	341
Federal Home Loan Bank advances	5
Total interest expense	<u>346</u>
Net interest income	2,142
Provision for loan losses	734
Net interest income after provision for loan losses	<u>1,408</u>
Noninterest income:	
Service charges on deposit accounts	148
Other income	48
Total noninterest income	<u>196</u>
Noninterest expense:	
Compensation and benefits	25,473
Professional services	2,635
Charitable contributions	4,330
Occupancy expense	471
Depreciation and amortization	243
Deposit insurance and regulatory assessments	219
Other expenses	596
Total noninterest expense	<u>33,967</u>
Loss before income tax benefit	(32,363)
Income tax benefit	(45)
Net loss	<u><u>\$ (32,318)</u></u>

See accompanying notes to financial statements.

OPUS BANK
Statement of Changes in Stockholders' Equity
Period from October 1, 2010 to December 31, 2010
(In thousands, except share data)

	Common stock issued	Preferred stock issued	Common stock	Preferred stock	Treasury stock	Parent company investment	Additional paid-in capital	Accumulated other comprehensive income	Accumulated deficit	Comprehensive loss	Total stockholders' equity
Balance September 30, 2010	—	—	\$ —	—	—	14,789	—	(6,800)	—	—	7,989
Purchase accounting adjustments	—	—	—	—	—	(14,789)	—	6,800	—	—	(7,989)
Issuance of common stock, net	19,295,650	—	357,349	—	—	—	—	—	—	—	357,349
Issuance of Series A preferred stock, net	—	74,087	—	68,615	—	—	—	—	—	—	68,615
Comprehensive income (loss):											
Net loss	—	—	—	—	—	—	—	—	(32,318)	(32,318)	(32,318)
Change in unrealized gain net of tax of \$45	—	—	—	—	—	—	—	65	—	65	65
Total comprehensive loss										\$ (32,253)	
Shares issued for vested restricted stock awards	583,370	—	—	—	—	—	10,191	—	—	—	10,191
Surrender of 9,454 shares of common stock from vested restricted stock	—	—	—	—	(165)	—	—	—	—	—	(165)
Amortization of unvested restricted stock awards and stock options	—	—	—	—	—	—	1,829	—	—	—	1,829
Balance December 31, 2010	<u>19,879,020</u>	<u>74,087</u>	<u>\$ 357,349</u>	<u>68,615</u>	<u>(165)</u>	<u>—</u>	<u>12,020</u>	<u>65</u>	<u>(32,318)</u>		<u>405,566</u>

See accompanying notes to financial statements.

OPUS BANK

Statement of Cash Flows

Period from October 1, 2010 to December 31, 2010

(In thousands)

Cash flows from operating activities:	
Net loss	\$ (32,318)
Adjustments to net loss to net cash used in operating activities:	
Depreciation and amortization	243
Provision for loan losses	734
Share-based compensation expense	12,021
Accretion and amortization of discounts and premiums	(610)
Net change in accrued interest receivable and other assets	(948)
Net change in accrued expenses and other liabilities	313
Net cash used in operating activities	<u>(20,565)</u>
Cash flows from investing activities:	
Sale of investment securities available for sale	51,836
Purchase of investment securities available for sale	(48,205)
Net cash paid in BCNB transaction	(10,146)
Net decrease in loans	3,017
Redemption of Federal Reserve Bank and Federal Home Loan Bank stock	502
Purchase of premises and equipment	(173)
Net cash used in investing activities	<u>(3,169)</u>
Cash flows from financing activities:	
Net increase in deposits	4,076
Proceeds from issuance of common stock, net of issuance costs	357,349
Proceeds from issuance of preferred stock, net of issuance costs	68,615
Proceeds from issuance of common stock warrants	1,526
Proceeds from issuance of preferred stock warrants	7,095
Net increase in treasury stock	(165)
Net cash provided by financing activities	<u>438,496</u>
Net increase in cash and cash equivalents	414,762
Cash and cash equivalents at October 1, 2010	<u>98,800</u>
Cash and cash equivalents at December 31, 2010	<u>\$ 513,562</u>
Supplemental disclosures of cash flow information:	
Cash paid during the period for:	
Interest	\$ 363
Income taxes, net of refunds	(180)

See accompanying notes to financial statements.

OPUS BANK

Notes to Financial Statements

December 31, 2010

(1) Description of Business

Opus Bank (the Company), a privately held California state-chartered commercial bank, provides relationship-based banking products, services and loan products to small to mid-sized commercial businesses, consumers, high net-worth individuals, professionals and families. The Company is headquartered in Redondo Beach, California with administrative offices in Irvine, California. The Company operates five banking offices in Los Angeles County in the communities of Manhattan Beach, Redondo Beach, Rancho Palos Verdes/San Pedro, Rolling Hills Estates, and Torrance.

As discussed in Footnote 3, on September 30, 2010, the Company completed a recapitalization of Bay Cities National Bank (BCNB), whereby BCNB was converted from a national bank to a California state-chartered commercial bank and changed its name to Opus Bank. In connection with the recapitalization, Opus Bank completed a private placement, whereby it raised \$460.0 million from approximately 25 institutional and other accredited investors in exchange for an ownership interest in Opus Bank.

(2) Summary of Significant Accounting Policies

The following is a summary of the significant accounting policies used in preparing the financial statements.

(a) Basis of Presentation

The accompanying financial statements have been prepared in accordance with generally accepted accounting principles (GAAP) and conform to general practices within the Company's industry.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. These estimates are based on information available as of the date of the financial statements. Actual results could differ from those estimates. Information regarding certain specific examples of amounts in the financial statements that are subject to estimation is provided below.

(b) Business Combination

The Company utilizes the acquisition method of accounting for business combinations and recognizes 100% of the assets acquired and liabilities assumed at their date of acquisition at fair value under Accounting Standards Codification (ASC) Topic 805, *Business Combinations* (ASC 805). Management uses valuation techniques based on the asset or liability being measured in determining the fair value. When the purchase price exceeds the values determined for the assets acquired and liabilities assumed, the difference is recorded as goodwill. Acquisition-related costs are expensed as incurred.

(c) Fair Value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Assets and liabilities measured at fair value are disclosed in accordance with a three level hierarchy (e.g., Level 1, Level 2, and Level 3) established under ASC Topic 820, *Fair Value Measurements and Disclosures*

OPUS BANK

Notes to Financial Statements

December 31, 2010

(ASC 820). The Company uses valuation techniques in determining the fair value of assets and liabilities based on assumptions that market participants would use in the most advantageous market.

(d) Cash and Cash Equivalents

Cash on hand, amounts with remaining terms less than three months, amounts due from correspondent banks and the Federal Reserve Bank are considered cash and cash equivalents.

(e) Investment Securities

Investment securities are classified based on management's intention at the reporting date. Investment securities consist of debt securities, including mortgage-backed securities issued by government agencies or government-sponsored entities.

The securities classified as available for sale are reported at fair value with changes in unrealized gains or losses, net of tax, reported as a separate component of other comprehensive income. Realized gains and losses are determined using the specific identification method.

If the fair value of a security declines below its amortized cost and management believes that decline to be other than temporary, the amortized cost of the security is written down to its fair value and the amount of the write-down is included in income as a realized loss. For debt securities that it is not more likely than not that the Company will be required to sell the security before recovery of the cost basis, the credit loss component of the impairment is recognized as a realized loss and the noncredit impairment remains in other comprehensive income, net of tax.

Premiums and discounts to par value at the time of purchase are amortized and accreted into interest income from investments using the effective interest method over the remaining life of the security, adjusted for anticipated prepayments.

(f) Loans

Loans originated by the Company are stated at the amount of principal outstanding, net of participations sold. Nonrefundable loan fees and related direct costs associated with the origination or purchase of loans are deferred and netted against outstanding loan balances. The net deferred fees and costs are recognized into income over the loan term using the effective interest method.

For loans the Company originates, a loan is considered to be impaired when it is probable that it will be unable to collect all amounts due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment delays and shortfalls, payment history and collateral value. The measurement of impairment is based on the present value of the expected future cash flows of the impaired loan discounted at the loan's original effective interest rate or the fair value of the collateral for a collateral-dependent loan. Impairment in value below the recorded amount of the loan is recorded by either creating a valuation allowance or adjusting an existing allowance with a corresponding charge to the provision for loan losses.

The accrual of interest on originated loans is discontinued (nonaccrual) when the full collection of principal and interest is in doubt. The Company generally does not accrue interest on loans that are 90 days or more past due. When a loan is placed on nonaccrual, previously accrued but unpaid

OPUS BANK

Notes to Financial Statements

December 31, 2010

interest is reversed and charged against interest income and future accruals of interest are discontinued. Payments by borrowers for loans on nonaccrual are applied to loan principal. Loans are returned to accrual status when, in management's judgment, the borrower's ability to satisfy principal and interest obligations under the loan agreement has improved sufficiently to reasonably assure recovery of principal and the borrower has demonstrated a sustained period of repayment performance. In general, the Company requires a minimum of six consecutive months of timely payments in accordance with the contractual terms prior to returning a loan to accrual status.

(g) *Acquired Loans*

Acquired loans are valued as of the acquisition date in accordance with ASC 805. Loans purchased with evidence of credit deterioration since origination for which it is probable that all contractually required principal and interest will not be collected are accounted for under ASC 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality* (ASC 310-30).

Under ASC 805 and ASC 310-30, loans are recorded at fair value at the acquisition date, which includes a reduction for credit losses expected to be incurred over the life of the loan. Thus, an allowance for loan losses is not carried over or recorded as of the acquisition date.

Fair value for acquired loans is determined using a discounted cash flow model. The cash flows expected over the life of the loan are estimated using a model that projects cash flows and calculates the carrying values of the loans, book yields and effective interest income. Assumptions as to the default rates, loss severity, payment curves, loss timing curves and prepayment speeds are utilized to calculate the cash flows.

For acquired loans with no evidence of credit deterioration since origination, the excess of the loan principal balance over the fair value is recorded as a discount at acquisition and accreted through interest income over the life of the loan. Subsequent to acquisition, these loans are evaluated for credit deterioration and an allowance for loan losses would be recorded when the probable loss exceeds the remaining discount.

For acquired loans accounted for under ASC 310-30, the excess of cash flows expected to be collected over the fair value is considered to be the accretable yield and is recognized as interest income over the life of the loan if the timing and amount of the future cash flows are reasonably estimable. The excess of contractual cash flows over the cash flows expected to be collected is considered the nonaccretable difference. Any subsequent decreases in expected cash flows from the acquisition date is recorded as an allowance for loan losses. These loans are reported as impaired when the expected cash flows decline below those expected at the acquisition date. These loans are reported as nonaccrual when the expected cash flows are not reasonably estimable.

(h) *Allowance for Loan Losses*

The allowance for loan losses is provided for probable losses inherent in the loan portfolio. The allowance is increased by the provision for loan losses and reduced by loan principal charged off, net of recoveries. The allowance is based on management's assessment of the nature of the loan portfolio, previous loss experience, known and inherent risks in the portfolio, the estimated value of

OPUS BANK

Notes to Financial Statements

December 31, 2010

any underlying collateral, adverse situations that may affect a borrower's ability to repay and current economic and environmental conditions.

While management uses available information, including independent appraisals for collateral, to estimate the extent of future credit losses from the loan portfolio, inherent uncertainties in the estimation process make it reasonably possible the estimated losses will be susceptible to significant revision as more information becomes available.

(i) Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation calculated on a straight-line basis over the estimated useful lives of the assets. Maintenance and repairs of premises and equipment are expensed as incurred. The cost and related accumulated depreciation of assets sold or otherwise disposed of are removed from their respective accounts and any gain or loss is included in earnings.

(j) Goodwill and Other Intangibles

Under the acquisition method, any excess of the purchase price over amounts allocated to acquired assets, including identifiable intangible assets, and liabilities assumed is recorded as goodwill. Goodwill is evaluated for impairment at least annually or more frequently if circumstances or specific events indicate that the fair value of a reporting unit is less than its carrying amount. If the carrying amount of the reporting unit with goodwill exceeds its implied fair value, an impairment loss is recognized through earnings.

Other intangible assets consist of core deposit intangibles that are amortized through earnings over the estimated economic lives of the acquired core deposits. The carrying amount of core deposit intangibles is evaluated for possible impairment at least annually or more frequently if circumstances or specific events indicate that the carrying amount may not be recoverable based upon undiscounted future cash flows. Impairment is measured as the amount by which the carrying amount exceeds the fair value and is recognized as an impairment loss through earnings. The carrying amount of the intangible asset is adjusted to a new cost basis and amortized over the remaining useful life of the asset.

(k) Income Taxes

Provisions are made for the current and deferred income tax expense on net income adjusted for permanent and temporary differences based on enacted tax laws and applicable statutory tax rates.

Deferred tax assets and liabilities represent the future tax consequences of differences between financial reporting and tax reporting basis, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Differences mainly relate to net operating losses, securities available for sale, loan losses, charitable contributions, organizational expenses, amortizable intangibles and depreciation of fixed assets.

On an ongoing basis, management evaluates the deferred tax assets to determine if the tax benefits are expected to be realized in future periods. The Company recognizes the benefits of a tax position in the financial statements of the period during which, based on all available evidence, management

OPUS BANK

Notes to Financial Statements

December 31, 2010

believes that the tax benefits are realizable in future periods. To the extent the benefit of a deferred tax asset is no longer expected to be realized, a valuation allowance is established with a corresponding charge, including interest and penalties, through the provision for income taxes.

The tax benefit of temporary differences and carryforwards are recorded as an asset to the extent the Company believes the utilization is “more likely than not.” At December 31, 2010, the Company has a valuation allowance for \$19.4 million due to the uncertainty of sufficient future taxable income to fully realize the benefits.

The Company has adopted the provisions of ASC 740-10, *Accounting for Uncertainty in Income Taxes* which prescribes a recognition threshold and measurement standard for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. ASC 740-10 requires that the Company recognize in the financial statements the impact of a tax position, if that position is more likely than not to be sustained on audit, based on the technical merits of the position.

We may from time to time be assessed interest or penalties by taxing authorities. In the event a reserve for interest and penalties is established pursuant to ASC 740-10, or, if any such interest and penalties are assessed by a tax authority, such amounts will be classified in the financial statements as income tax expense.

(l) *Share-Based Compensation*

The Company issues awards of equity instruments, such as stock options and restricted stock, to employees and directors. The awards are measured at fair value on the grant date and cost is recognized over the vesting period of the award through earnings. Vesting for some awards is based on performance and market conditions, which is considered in determining the vesting period.

(m) *Stock Warrant Liability*

The Company issued warrants to purchase shares of common and preferred stock that contain a “down round” provision. These warrants are classified as a liability in accordance with ASC Topic 815, *Derivatives and Hedging*, and are measured at fair value with changes in the fair value recorded on the statement of operations.

(n) *Recent Accounting Pronouncements*

During the year ended December 31, 2010, the following accounting pronouncements applicable to the Company were issued or became effective:

Accounting Standards Update (ASU) No. 2009-16, *Transfers and Servicing* (Topic 860) – *Accounting for Transfers of Financial Assets*. ASU 2009-16 amends prior accounting guidance to enhance reporting about transfers of financial assets, including securitizations, and where companies have continuing exposure to the risks related to transferred financial assets. ASU 2009-16 eliminates the concept of a “qualifying special-purpose entity” and changes the requirements for derecognizing financial assets. ASU 2009-16 also requires additional disclosures about all continuing involvements with transferred financial assets including information about gains and losses resulting from transfers

OPUS BANK

Notes to Financial Statements

December 31, 2010

during the period. The provisions of ASU 2009-16 became effective on January 1, 2010 and did not have a significant impact on the Company's financial statements.

ASU No. 2009-17, *Consolidations (Topic 810) – Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities*. ASU 2009-17 amends prior guidance to change how a company determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. The determination of whether a company is required to consolidate an entity is based on, among other things, an entity's purpose and design and a company's ability to direct the activities of the entity that most significantly impact the entity's economic performance. ASU 2009-17 requires additional disclosures about the reporting entity's involvement with variable-interest entities and any significant changes in risk exposure due to that involvement as well as its effect on the entity's financial statements. The provisions of ASU 2009-17 became effective on January 1, 2010 and did not have a significant impact on the Company's financial statements.

ASU No. 2010-06, *Fair Value Measurements and Disclosures (Topic 820) – Improving Disclosures about Fair Value Measurements*. ASU 2010-06 requires expanded disclosures related to fair value measurements including (i) the amounts of significant transfers of assets or liabilities between Levels 1 and 2 of the fair value hierarchy and the reasons for the transfers, (ii) the reasons for transfers of assets or liabilities in or out of Level 3 of the fair value hierarchy, with significant transfers disclosed separately, (iii) the policy for determining when transfers between levels of the fair value hierarchy are recognized and (iv) for recurring fair value measurements of assets and liabilities in Level 3 of the fair value hierarchy, a gross presentation of information about purchases, sales, issuances and settlements. ASU 2010-06 further clarifies that (i) fair value measurement disclosures should be provided for each class of assets and liabilities (rather than major category), which would generally be a subset of assets or liabilities within a line item in the statement of financial position and (ii) companies should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements for each class of assets and liabilities included in Levels 2 and 3 of the fair value hierarchy. The disclosures related to the gross presentation of purchases, sales, issuances and settlements of assets and liabilities included in Level 3 of the fair value hierarchy will be required for the Company beginning January 1, 2011. The remaining disclosure requirements and clarifications made by ASU 2010-06 became effective for the Company on January 1, 2010.

ASU No. 2010-20, *Receivables (Topic 310) – Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*. ASU 2010-20 requires entities to provide disclosures designed to facilitate financial statement users' evaluation of (i) the nature of credit risk inherent in the entity's portfolio of financing receivables, (ii) how that risk is analyzed and assessed in arriving at the allowance for credit losses and (iii) the changes and reasons for those changes in the allowance for credit losses. Disclosures must be disaggregated by portfolio segment, the level at which an entity develops and documents a systematic method for determining its allowance for credit losses, and class of financing receivable, which is generally a disaggregation of portfolio segment. The required disclosures include, among other things, a rollforward of the allowance for credit losses as well as information about modified, impaired, nonaccrual and past-due loans and credit quality indicators. ASU 2010-20 will become effective for the Company's financial statements as of December 31, 2011, as it relates to disclosures required as of the end of a reporting period.

OPUS BANK

Notes to Financial Statements

December 31, 2010

Disclosures that relate to activity during a reporting period will be required for the Company's financial statements that include periods beginning on or after January 1, 2012. ASU 2011-01, *Receivables (Topic 310) – Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20*, temporarily deferred the effective date for disclosures related to troubled debt restructurings to coincide with the effective date of a proposed accounting standards update related to troubled debt restructurings, which is currently expected to be effective for periods ending after June 15, 2011.

ASU No. 2010-28, *Intangibles – Goodwill and Other (Topic 350) – When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts*. ASU 2010-28 modifies Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that an impairment may exist such as if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. ASU 2010-28 will be effective for the Company on January 1, 2011 and is not expected have a material effect on the Company's financial statements.

ASU No. 2010-29, *Business Combinations (Topic 805) – Disclosure of Supplementary Pro Forma Information for Business Combinations*. ASU 2010-29 provides clarification regarding the acquisition date that should be used for reporting the pro forma financial information disclosures required by ASC 805 when comparative financial statements are presented. ASU 2010-29 also requires entities to provide a description of the nature and amount of material, nonrecurring pro forma adjustments that are directly attributable to the business combination. ASU 2010-29 is effective for the Company prospectively for business combinations occurring after December 31, 2010.

(3) Business Combination

On September 30, 2010, BCNB was recapitalized through a private placement to approximately 25 institutional and other accredited investors (the investor group). In connection with the recapitalization, BCNB was converted from a national bank to a California state-chartered commercial bank and changed its name to Opus Bank and management and the Board of Directors of BCNB were replaced. This transaction qualified as a business combination under ASC 805 and was accounted for using the acquisition method of accounting. This acquisition was the first step in developing a platform to grow a regional bank with a strong retail and commercial banking platform in the Western region of the country through organic growth and acquisitions.

The investor group invested \$460.0 million, of which \$424.4 million was contributed as capital to the Company, \$25.5 million of transaction costs were paid and net consideration of \$10.1 million was paid to Peninsula Banking Group (PBG), the former bank holding company parent of BCNB, in exchange for redemption of all outstanding common shares of BCNB. Net consideration to PBG included \$13.3 million of redemption proceeds paid by the Company and \$3.2 million of cash received in settlement of net intercompany receivables due from PBG on the date of acquisition.

OPUS BANK

Notes to Financial Statements

December 31, 2010

The assets, both tangible and intangible, and liabilities were recorded at their fair values on the September 30, 2010 transaction date. A summary of the fair value of assets acquired and liabilities assumed is as follows:

	September 30, 2010
	(In thousands)
Cash	\$ 98,797
Short-term investments	3
Investment securities	55,301
Loans	106,641
Premises and equipment	2,799
Core deposit intangible	5,128
Accrued interest receivable	656
Other assets	801
Total assets acquired	270,126
Demand deposits	73,015
Interest bearing core deposits	127,077
Certificates of deposit	71,293
Total deposits	271,385
FHLB advances	2,450
Accrued interest payable	85
Other liabilities	1,256
Total liabilities assumed	275,176
Net liabilities assumed	\$ (5,050)

The Company recorded \$15.2 million of goodwill and \$5.1 million of core deposit intangible at September 30, 2010. Goodwill is not amortized and is measured for impairment based on the carrying value. The core deposit intangible is being amortized over its estimated life of nine years.

There are no contingent payments, options or commitments related to the transaction.

(4) Restrictions on Cash and Due from Banks

The Company is required to maintain noninterest bearing cash balances with the Federal Reserve Bank, which are unavailable for investment. The average reserve balance the Company was required to maintain in 2010 was \$329 thousand.

(5) Fair Value

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company uses various valuation models, which utilize certain inputs and assumptions that market participants would use in

OPUS BANK

Notes to Financial Statements

December 31, 2010

pricing the asset or liability. The inputs and assumptions used in valuation models are classified in the fair value hierarchy as follows:

Level 1 – Quoted market prices in an active market for identical assets and liabilities.

Level 2 – Quoted market prices for similar instruments in an active market; quoted prices for identical or similar assets and liabilities in markets that are not active; and model-derived valuations inputs of which are observable and can be corroborated by market data.

Level 3 – Unobservable inputs and assumptions that are supported by little or no market activity and that are significant to the fair value of the asset and liability.

The carrying amounts and fair values of the Company's financial instruments at December 31, 2010 were as follows:

	December 31, 2010	
	Carrying amount	Estimated fair value
	(In thousands)	
Financial assets:		
Cash and due from banks	\$ 513,562	513,562
Investments securities	48,292	48,292
Loans receivable, net	103,257	101,711
Federal Home Loan Bank stock	2,962	2,962
Financial liabilities:		
Core deposits	\$ 201,270	201,270
Time deposits	73,996	74,058
Federal Home Loan Bank advances	2,433	2,433
Stock warrant liability	8,621	8,621

The methods and assumptions for estimating the fair value of each class of financial instruments are explained below:

Cash and due from banks – The carrying amount approximates fair values due to the short-term nature of these instruments.

Investment securities – The fair values are determined by reference to the average of four quoted market prices obtained from independent external brokers or independent external pricing service providers. For some securities, the market prices provided are based on broker models and thus are classified as Level 2.

Loans, net – The fair value of loans is determined based on a discounted cash flow approach. The discount rate reflects the Company's current offering rates for loans with similar financial characteristics and each loan's current credit assessment. The Company's current offering rates incorporate the Company's assumptions about current market yields, credit risk, and liquidity premiums. No adjustments have been made for additional changes in credit within the loan portfolio.

OPUS BANK

Notes to Financial Statements

December 31, 2010

Federal Home Loan Bank stock – The carrying amount approximates fair value as the stock may be sold back to the Federal Home Loan Bank (FHLB) at carrying value.

Core deposits – The fair value of core deposits is the amount payable on demand at the reporting date.

Time deposits – The fair value of fixed-maturity certificates of deposit is determined by discounting future cash flows by a market rate. The market rate is determined by comparison to other similar financial institutions for similar products.

FHLB advances – The fair value of FHLB advances is based on the contractual cash flows discounted at the rate currently offered for similar fixed-rate advances from the FHLB.

Stock warrant liability – The fair value of the stock warrant liability is determined using the Black-Scholes option pricing model. The key assumptions used in determining the fair value at December 31, 2010 included the remaining contractual life of 9.75 years, volatility of 50%, a risk free rate of 2.64% and no annual dividend yield.

The fair value of financial instruments is the current amount that would be exchanged between willing parties, other than in a forced liquidation. Fair value is best determined based upon quoted market prices. However, in many instances there are no quoted market prices for the Company's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of an instrument.

OPUS BANK

Notes to Financial Statements

December 31, 2010

In determining the appropriate hierarchy levels, the Company analyzes the assets and liabilities that are subject to fair value disclosure. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to their fair value measurement. The following table presents assets and liabilities that are measured at fair value on a recurring and nonrecurring basis by fair value hierarchy at December 31, 2010:

	Balance as of December 31, 2010	Fair value measurement		
		Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
(In thousands)				
Measured on a recurring basis:				
Assets:				
Investment securities:				
U.S. Treasury securities	\$ 5,020	5,020	—	—
Government agency mortgage-backed securities	43,272	—	43,272	—
Liabilities:				
Stock warrant liability	8,621	—	—	8,621
Total assets at fair value	\$ 56,913	5,020	43,272	8,621
Measured on a nonrecurring basis:				
Assets:				
Collateral dependent impaired loans	\$ 2,050	—	—	2,050
Total assets at fair value	\$ 2,050	—	—	2,050

For assets measured on a nonrecurring basis, a specific reserve of \$734 thousand was recognized in 2010 for one impaired loan due to a decline in the underlying collateral. Collateral-dependent impaired loans are valued using external appraised values with some adjustments for management's assumptions of market conditions that are not directly observable.

OPUS BANK

Notes to Financial Statements

December 31, 2010

The following table is a reconciliation of the fair value of the Company's stock warrant liability that is classified as Level 3 and measured on a recurring basis:

	2010
	(In thousands)
Fair value of stock warrant, beginning balance	\$ —
Issuance of common stock warrants	1,526
Issuance of preferred stock warrants	7,095
Change in fair value	—
Fair value of stock warrant, ending balance	\$ 8,621

There were no transfers between Level 1 and Level 2 of the hierarchy during the current period.

(6) Investment Securities Available for Sale

The following table summarizes the amortized cost and estimated fair value for the major categories of investment securities at December 31, 2010:

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
	(In thousands)			
As of December 31, 2010:				
U.S. Treasury	\$ 5,022	—	(2)	5,020
Government sponsored entities mortgage-backed securities	43,160	112	—	43,272
Total investment securities	\$ 48,182	112	(2)	48,292

All securities in a gross unrealized loss position have been in a continuous unrealized loss position for less than 12 months. The securities have fluctuated in value since their purchase dates as market interest rates have fluctuated. The securities are all guaranteed by U.S. government sponsored entities. The Company does not intend to sell these securities and it is not more likely than not that the Company will be required to sell the securities before recovery of the amortized cost basis. The Company does not consider these securities to be other than temporarily impaired at December 31, 2010.

OPUS BANK

Notes to Financial Statements

December 31, 2010

The scheduled maturities of investment securities at December 31, 2010 are presented in the table below:

	Amortized cost	Estimated fair value
(In thousands)		
Due within one year	\$ 5,022	5,020
Due after ten years	43,160	43,272
Total investment securities	\$ 48,182	48,292

Actual maturities of mortgage-backed securities can differ from contractual maturities due to borrowers' rights to prepay loans. Prepayments and interest rates can affect the yields on the carrying value of mortgage-backed securities.

All securities acquired on September 30, 2010 were sold on October 1, 2010 with a realized loss of \$3.6 million, which was the fair value adjustment included in the calculation of goodwill on September 30, 2010. No other sales of securities occurred during 2010.

At December 31, 2010, \$4.6 million of U.S. Treasury securities were pledged to secure FHLB advances and the Federal Reserve Bank's discount window.

(7) Loans and Allowance for Loan Losses

The following is a summary of the major categories of loans:

	December 31 2010
(In thousands)	
Real estate mortgage loans:	
Residential single family	\$ 14,690
Residential multifamily	6,650
Commercial	70,607
Commercial business loans	6,521
Small Business Administration	
commercial loans	4,773
Consumer loans	750
	\$ 103,991

At December 31, 2010, the entire loan portfolio was comprised of loans acquired on September 30, 2010, which are recorded at the adjusted carrying amount, net of the unamortized fair value discount of \$5.7 million. The initial fair value of \$106.6 million was determined based on a discounted cash flow model. The cash flows expected over the life of the loans are estimated using a cash flow model that projects cash flows and calculates the carrying values of the pools, book yields, and effective interest income. Assumptions as to the default rates, loss severity, payment curves, loss timing curves, and prepayment speeds are utilized to calculate the cash flows.

OPUS BANK

Notes to Financial Statements

December 31, 2010

Of the acquired loans at September 30, 2010, loans with a fair value of \$104.0 million showed no evidence of credit deterioration since origination and the fair value discount is being accreted through interest income over the life of the loans. At September 30, 2010, the contractually required payments of principal and interest were \$154.8 million. The cash flows expected to be collected were \$147.9 million. These cash flows were determined based on the estimated remaining life of the loans including the effect of estimated prepayments. The loans have a carrying amount of \$101.4 million at December 31, 2010.

Two loans acquired met the requirements for accounting under ASC 310-30 due to credit deterioration since origination and the probability of not collecting all contractually required payments (acquired impaired loans). As of September 30, 2010, the contractually required payments for acquired impaired loans were \$6.4 million and the fair value was \$2.6 million. The carrying value at December 31, 2010 is \$1.9 million with both loans included in the commercial real estate loan category.

The following table shows the estimated fair value and carrying amounts of the acquired impaired loans on the September 30, 2010 acquisition date and December 31, 2010:

	September 30, 2010	December 31, 2010
	(In thousands)	
Contractually required payments of interest and principal	\$ 6,452	6,362
Nonaccretable difference	(2,883)	(3,850)
Cash flows expected to be collected	3,569	2,512
Accretable difference	(1,017)	(662)
Carrying value of acquired impaired loans	\$ 2,552	1,850

Changes in the carrying amount and accretable yield for acquired impaired loans were as follows for the period from September 30, 2010 to December 31, 2010:

	Carrying amount of loans	Accretable yield
	(In thousands)	
Balance at the beginning of the period (1)	\$ 2,552	(1,017)
Accretion	122	122
Provision for loan losses	(734)	—
Decrease in expected cash flows	—	233
Payments received	(90)	—
Balance at the end of the period	\$ 1,850	(662)

(1) Fair value on the September 30, 2010 acquisition date.

At December 31, 2010, one acquired impaired loan was reported as impaired with a carrying amount of \$1.0 million.

OPUS BANK

Notes to Financial Statements

December 31, 2010

The Company's lending activities are concentrated in Southern California. Certain credit risk exists from the concentration of clients engaged in similar businesses, geographic regions, and economic characteristics. The portfolio is diversified but loan performance is dependent on the economic stability of the Southern California area. The Company has \$43.9 million of owner occupied commercial real estate loans at December 31, 2010. Repayment of these loans is dependent on the cash flows from the underlying business operations.

There are no loans past due 90 days or more still accruing interest or that qualify as a troubled debt restructuring at December 31, 2010.

Allowance for Loan Losses

The allowance for loan losses is an estimate of probable losses in the loan portfolio based on management's process to analyze loans and commitments by portfolio. Management's assumptions in determining this estimate include specific borrower information, historical loss factors and qualitative factors for risks that could cause future losses to vary from historical performance including economic conditions.

As the loan portfolio at December 31, 2010 was acquired on September 30, 2010, the beginning allowance for loan losses is zero. In accordance with ASC 805 and ASC 310-30, no allowance for loan losses is recorded at acquisition and credit impairment is included in the fair value discount.

The loans acquired with no evidence of credit deterioration were evaluated under the Company's allowance for loan losses methodology and no allowance for loan losses was recorded as the probable losses do not exceed the remaining discount. These loans have a carrying amount of \$101.4 million at December 31, 2010.

The acquired impaired loans were evaluated for further credit impairment at December 31, 2010, which resulted in impairment of \$734 thousand recorded as an allowance for loan losses. Impairment is recorded when the future expected cash flows decrease below the future expected cash flows on the acquisition date. The carrying value of acquired impaired loans, net of the allowance for loan losses of \$734 thousand, at December 31, 2010 is \$1.9 million.

The following is a summary of activity in the allowance for loan losses from September 30, 2010 through December 31, 2010:

	2010
	(In thousands)
Beginning balance	\$ —
Chargeoffs	—
Recoveries	—
Provision for loan losses	734
Ending balance	\$ <u>734</u>

At December 31, 2010, two loans with a carrying value of \$240 thousand were considered to be nonaccrual. The Company evaluated these loans and no additional allowance for loan losses was required.

OPUS BANK

Notes to Financial Statements

December 31, 2010

These two loans meet the criteria for nonaccrual but have yield accreted through interest income from the fair value discount at acquisition.

(8) Premises and Equipment

The following is a summary of the Company's major categories of premises and equipment:

	2010
	(In thousands)
Land	\$ 1,370
Buildings	960
Leasehold improvements	571
Furniture, fixtures and equipment	101
	<u>3,002</u>
Less accumulated depreciation	<u>(95)</u>
	<u>\$ 2,907</u>

Premises and equipment acquired at September 30, 2010 are shown at their adjusted carrying values at December 31, 2010. Depreciation and amortization expense was \$101 thousand for the period from October 1, 2010 through December 31, 2010. Capitalized assets are depreciated on a straight-line basis over the expected useful life of each fixed asset class.

Rental expense of \$321 thousand on operating leases is included in occupancy expense. The future net minimum rental commitments were as follows at December 31, 2010:

	Net minimum rental commitments
	(In thousands)
2011	\$ 1,177
2012	1,438
2013	689
2014	714
2015	663
Thereafter	<u>1,454</u>
	<u>\$ 6,135</u>

Payments under several of the leases are subject to extensions and escalation clauses.

OPUS BANK

Notes to Financial Statements

December 31, 2010

(9) Goodwill and Intangibles

The following shows the activity of goodwill and intangibles:

	2010
	(In thousands)
Goodwill:	
Beginning balance	\$ 15,216
Impairment	—
Ending balance	\$ 15,216
Core deposit intangible:	
Beginning balance	\$ 5,128
Amortization	(142)
Ending balance	\$ 4,986

As discussed in Footnote 3, the Company recorded \$15.2 million of goodwill and \$5.1 million of core deposit intangible in connection with the BCNB transaction on September 30, 2010.

Core deposit intangibles are amortized over their estimated lives of nine years. Amortization of \$142 thousand was recorded during 2010 and the core deposit intangible had a net balance of \$5.0 million at December 31, 2010. Amortization expense over the next five years is expected to be \$570 thousand annually.

Both goodwill and core deposit intangibles are evaluated for impairment annually or more frequently if certain events or conditions occur. The Company completed an impairment analysis at December 31, 2010 of goodwill and core deposit intangibles. The fair value exceeded the carrying value for both the reporting unit with goodwill and the core deposit intangible and thus no impairment was recorded. All assets and liabilities of the Company were recorded at fair value on September 30, 2010 and the activity through December 31, 2010 has not indicated that the fair values have changed significantly.

(10) Income Taxes

Income tax (benefits) include the following:

	Current	Deferred	Total
	(In thousands)		
2010:			
Federal	\$ —	(33)	(33)
State	—	(12)	(12)
Total	\$ —	(45)	(45)

The Company had income taxes receivable of \$201 thousand at December 31, 2010.

OPUS BANK

Notes to Financial Statements

December 31, 2010

The tax effects of temporary differences that give rise to significant portions of deferred tax assets and liabilities at December 31, 2010 are as follows (in thousands):

Deferred tax assets:	
Net operating loss carryforward	\$ 15,754
Purchased loans discount	2,577
Charitable contributions	1,958
Share-based compensation	820
Organizational expenses	644
Purchased deposits, borrowings and commitments discounts	337
Allowance for loan losses	182
Accrued expenses	125
Unrealized loss on securities	5
Total gross deferred tax assets	22,402
Deferred tax liabilities:	
Core deposit intangible	(2,115)
Depreciation	(627)
Prepaid expenses	(197)
FHLB stock dividends	(51)
Unrealized gain on securities	(51)
Total gross deferred tax liabilities	(3,041)
Valuation allowance	(19,361)
Net deferred tax assets	\$ —

The Company has federal and state operating loss carryforwards of \$15.8 million, which expires in various years through 2032. Federal and state tax laws related to a change in ownership, such as that resulting from the acquisition of BCNB, place limitations on the annual amount of net operating loss carryovers that can be utilized to offset post-acquisition taxable income. Under Internal Revenue Code Section 382, which is also applicable for California tax purposes, certain changes in the ownership of a loss company can result in limitations on the utilization of net operating and any built-in losses. As a result of the acquisition of BCNB, the Company is subject to these limitations on \$4.8 million of state net operating loss carryforward.

The tax benefit of temporary differences and carryforwards is recorded as an asset to the extent the Company believes the benefits are expected to be realized in future periods. The Company has a valuation allowance for \$19.4 million due to the uncertainty of sufficient future taxable income to fully realize the benefits.

The Company has concluded that there are no uncertain tax positions as of December 31, 2010. The Company has not recorded a liability for uncertain tax positions as of December 31, 2010.

OPUS BANK

Notes to Financial Statements

December 31, 2010

Prior to the transaction, BCNB was included as part of a consolidated tax return for federal and state purposes. As a result of the consolidated filing status as of December 31, 2009, the Company is currently under examination by the Internal Revenue Service (IRS) for the tax periods through December 31, 2009. The current year will be open to examination for federal and state purposes once the return is filed but the Company does not believe there are any issues or claims that are likely to be material to the Company's financial position.

The difference between the effective tax rate in the financial statements and the federal income tax rate is attributed to the following:

Federal statutory income tax rate	(34.00)%
State income tax rate	(10.84)
Valuation allowance	44.84
Effective income tax rate	—

(11) Client Deposits

The following table shows the maturity distribution of time deposits as of December 31, 2010:

	2011	2012	2013	After 2013	Total
	(In thousands)				
Time deposits, \$100,000 and over \$	46,001	5,111	1,265	161	52,538
Other time deposits	19,987	840	476	155	21,458
Total time deposits \$	65,988	5,951	1,741	316	73,996

Accrued interest on deposits at December 31, 2010 was \$102 thousand.

(12) Federal Home Loan Bank Advances

The Company has one FHLB advance, which matures in 2013. The carrying amount at December 31, 2010 is \$2.4 million with an interest rate of 3.63%.

(13) Stock Warrant Liability

Common Stock Warrants – In connection with the private placement, on September 30, 2010, the Company issued warrants to purchase up to 140,625 shares of common stock at \$20.00 per share to some investors. The warrants may be exercised at any time through September 30, 2020. The exercise price of the warrants is subject to adjustment under certain circumstances, which is considered a “down round” provision. Under ASC 815, the “down round” provision results in the warrant being classified as a liability and measured at fair value with changes in the fair value recorded through the statement of operations. The warrants and all rights under the warrants are transferable. The net proceeds attributed to these instruments were \$1.5 million.

Series A Preferred Stock Warrants – In connection with the private placement, on September 30, 2010, the Company issued warrants to purchase up to 13,093 shares of Series A preferred stock at \$1,000 per share to some investors. The warrants may be exercised at any time through September 30, 2020. The exercise

OPUS BANK

Notes to Financial Statements

December 31, 2010

price of the warrants is subject to adjustment under certain circumstances, which is considered a “down round” provision. Under ASC 815, the “down round” provision results in the warrant being classified as a liability and measured at fair value with changes in the fair value recorded through the statement of operations. The warrants and all rights under the warrants are transferable. The net proceeds attributed to these instruments were \$7.1 million.

The change in the fair value of the stock warrant liability at December 31, 2010 was inconsequential due to the limited time and activity since issuance at September 30, 2010. No gain or loss was recorded in the statement of operations as of December 31, 2010.

(14) Shareholders' Equity

On September 30, 2010, the Company completed its \$460 million recapitalization, raising new capital in a private placement from approximately 25 institutional and other accredited investors. The Company issued shares of common stock, noncumulative nonvoting convertible preferred stock (Series A preferred stock) and warrants to purchase shares of common stock and Series A preferred stock. In connection with the private placement, the Company agreed to register for resale under certain specified circumstances the common stock, Series A preferred stock and the common stock and the Series A preferred stock issuable in connection with the exercise of the warrants. The Company raised approximately \$434.5 million in net proceeds from the private placement.

Common Stock – In connection with the private placement on September 30, 2010, the Company issued 19,295,650 shares of common stock at \$20.00 per share. The net proceeds attributed to the issuance of common stock were \$357.3 million. The common stock qualifies as Tier 1 capital.

Series A Preferred Stock – In connection with the private placement on September 30, 2010, the Company issued 74,087 shares of Series A preferred stock for a price of \$1,000 per share. The net proceeds attributed to the issuance of Series A preferred stock were \$68.6 million. The Series A preferred stock qualifies as Tier 1 capital. The holders of the Series A preferred stock have the right to convert such shares into shares of common stock under the following circumstances: (i) as part of a widely distributed offering of common and/or Series A preferred stock, (ii) in a private sale through which no purchaser would acquire 2% or greater of any class of voting securities, or (iii) to a person that is acquiring at least a majority of voting securities in the Company. Each share of Series A preferred stock is convertible into a number of shares of common stock equal to the conversion rate specified in the Series A preferred stock. The conversion rate is equal to \$1,000 plus any accrued and unpaid dividends divided by the applicable conversion price, which initially is \$20 per share of common stock. The conversion price is subject to adjustment to the extent, among other things, the Company issues stock dividends, splits, subdivides, combines or reclassifies its common stock or issues to its holders of common stock, convertible securities with an exercise or conversion price that is less than the conversion price of the Series A preferred stock.

Dividends will be paid on the Series A preferred stock, when and if declared on the common stock, at the conversion rate for each share of Series A preferred stock.

At December 31, 2010, the Company had 717,247 of unvested restricted stock granted to employees and directors under share-based compensation programs.

OPUS BANK

Notes to Financial Statements

December 31, 2010

(15) Share-Based Compensation Plans

The Opus Bank 2010 Long-Term Incentive Plan (the Plan) was approved by the Board of Directors of the Company on September 30, 2010. The compensation cost recognized on all share-based awards was \$12.0 million for the period October 1, 2010 through December 31, 2010.

(a) *Plan Description*

The Plan permits the grant of stock options and restricted stock awards to the Company's eligible employees and nonemployee directors. The purpose of the Plan is to promote the success of the Company by providing an additional way to attract, retain, and reward employees for service and financial performance of the Company and to link nonemployee directors' compensation with shareholder interests through equity grants.

(b) *Fair Value*

The fair value of each stock option award with vesting tied only to service conditions is estimated on the date of grant using a Black-Scholes option valuation methodology that utilizes certain assumptions. Due to limited activity under the Plan at December 31, 2010, the Company utilized estimates and peer data. Expected volatility is based on the historical volatility of a comparable peer group over a six year look-back period comparable to the expected term of the awards. The Company utilized the "plain vanilla" method from ASC 718-10, *Compensation-Stock Compensation*, to estimate the expected term due to lack of actual exercise activity. This method utilizes the vesting schedule and contractual terms to determine an expected life for the awards. The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of the grant for the contractual life of the award.

The assumptions utilized in the Black-Scholes model for grants during the current period are summarized as follows:

	<u>2010</u>
Expected volatility	50.0%
Expected term (years)	5.75
Expected dividend yield	0%
Risk-free interest rate	1.51%

OPUS BANK

Notes to Financial Statements

December 31, 2010

(c) **Stock Options**

Stock options granted during the period October 1, 2010 through December 31, 2010 have a strike price of \$20 per share, contractual term of 10 years and cliff vest over a 3-year period. A summary of stock option activity and related information for the period ended December 31, 2010 is as follows:

	<u>Number of shares</u> (In thousands)	<u>Weighted average exercise price (per share)</u>	<u>Aggregate intrinsic value</u> (In thousands)	<u>Weighted average remaining contractual term</u>
Options:				
Outstanding at September 30, 2010	—	\$ —	—	—
Granted	1,296	20.00	—	—
Exercised	—	—	—	—
Forfeited or expired	<u>—</u>	—	—	—
Outstanding at December 31, 2010	<u><u>1,296</u></u>	20.00	—	9.79
Exercisable at December 31, 2010	—	\$ —	—	—

Using the Black-Scholes option valuation model the weighted average grant date fair values of all options outstanding at December 31, 2010 was \$7.47. As of December 31, 2010, there are no options that are vested. There is \$8.8 million of unrecognized compensation cost related to unvested stock options granted. That cost is expected to be recognized over a weighted average period of 2.28 years.

OPUS BANK

Notes to Financial Statements

December 31, 2010

(d) Restricted Stock

The Plan provides for granting of restricted shares of the Company's common stock to employees. The restricted stock is subject to forfeiture until the vesting criteria are met. During the period October 1, 2010 through December 31, 2010, approximately 45% of the restricted stock awards granted immediately vested with the remainder vesting upon achievement of service and performance targets and market conditions tied to the Company's asset quality trends, regulatory capital requirements and stock price. A summary of the changes in restricted stock awards and related information for the period ended December 31, 2010 is as follows:

	Number of shares	Weighted average grant date fair value (per share)
	(In thousands)	
Restricted stock:		
Unvested at September 30, 2010	—	\$ —
Granted	1,300,617	16.65
Vested	(583,370)	17.47
Forfeited or expired	—	—
Outstanding at December 31, 2010	717,247	15.98

Restricted stock awards with only service conditions are valued at the fair value of common stock on the grant date. The fair value of each award with a service, market and performance condition is estimated using the fair value of the Company's common stock on grant date as the base value. An independent valuation firm utilized a Monte Carlo simulation to predict the timing of achieving the stock price target established as the market condition for the awards. The Company utilized internal data to forecast time period for the achievement of the asset quality and capital requirements established as the performance conditions. The data on both market and performance target timing was utilized to discount the fair value of the common stock on grant date and estimate the fair value of the awards.

There is \$10.5 million of unrecognized compensation cost related to unvested restricted stock awards granted. That cost is expected to be recognized over a weighted average period of 2.54 years. At December 31, 2010, there were 194,322 shares available for grant through stock options or restricted stock awards of the initially authorized 2,340,891 shares. Upon stock option exercise, treasury shares are reissued or new shares are issued.

(16) Commitments and Contingencies

In the normal course of business, the Company is a party to financial instruments with off-balance sheet risk. At December 31, 2010, these financial instruments are limited to unfunded commitments on existing loans and credit cards with a balance of \$10.9 million. This balance was recorded at fair value on September 30, 2010 and at December 31, 2010 reflects the adjusted carrying amount.

OPUS BANK

Notes to Financial Statements

December 31, 2010

The Company is involved in various other claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Company's financial position, results of operations or liquidity.

(17) Regulatory Requirements

The Company is subject to various regulatory capital requirements established by banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company must meet specific capital guidelines that involve quantitative measures of the Company's assets, liabilities and certain off-balance sheet items as calculated under the regulatory accounting rules. The Company's capital amounts and classification are also subject to qualitative judgments by the regulators about components risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company to maintain minimum amounts and ratios of total and Tier 1 capital to risk-weighted assets. As of December 31, 2010, the Company met and exceeded all capital adequacy requirements to which it is subject. Additionally, the regulatory agencies are required by law to take specific prompt action with respect to banks that do not meet minimum capital standards. As of December 31, 2010, the Company was categorized as "well capitalized." There have been no events or circumstances that cause the Company's management to believe that there would be a change in the Company's category of "well capitalized."

The Company's capital amounts and ratios as of December 31, 2010 are presented in the following table:

	Actual		Adequately capitalized		Well capitalized	
	Amount (In thousands)	Ratio	Amount (In thousands)	Ratio	Amount (In thousands)	Ratio
Total capital (to risk weighted assets)	\$ 386,033	350.25%	\$ 8,818	8.00%	\$ 11,022	10.00%
Tier 1 capital (to risk weighted assets)	385,299	349.58	4,409	4.00	6,613	6.00
Tier 1 capital (to average assets)	385,299	54.53	28,262	4.00	35,328	5.00

(18) Subsequent Events

On March 4, 2011, the Company announced that it had entered into a definitive agreement to acquire Cascade Financial Corporation (Cascade) for approximately \$21.75 million, of which \$16.25 million will be paid to the U.S. Department of Treasury for outstanding preferred stock and warrants and \$5.5 million will be paid to common shareholders. Cascade had \$1.5 billion in total assets, \$993.8 million in total loans, and \$1.1 billion in total deposits at December 31, 2010. The acquisition is subject to customary closing conditions, including the approval of the Cascade shareholders and bank regulatory agencies. The transaction is expected to close in the latter half of the quarter ending June 30, 2011.

The Company has evaluated events and transactions occurring through March 25, 2011 and there are no adjustments required to the financial statements.