HERITAGE FINANCIAL CORP /WA/
Form DEF 14A
March 20, 2015
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# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# SCHEDULE 14A INFORMATION

**Proxy Statement Pursuant to Section 14(a) of the**

**Securities Exchange Act of 1934**

**(Amendment No. )**

Filed by the Registrant x Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement

¨ **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

x Definitive Proxy Statement

¨ Definitive Additional Materials

¨ Soliciting Material under Rule 14a-12

# HERITAGE FINANCIAL CORPORATION

**(Name of registrant as specified in its charter)**

**(Name of person(s) filing proxy statement, if other than the registrant)**

Payment of Filing Fee (Check the appropriate box):

x No fee required.

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

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¨ Fee paid previously with preliminary materials.

¨ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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March 20, 2015

Dear Shareholder:

On behalf of the Board of Directors and management of Heritage Financial Corporation, we cordially invite you to attend the annual meeting of shareholders. The meeting will be held at 10:30 a.m. Pacific time, on Wednesday, May 6, 2015 at The Heritage Room on Capitol Lake, 604 Water Street Southwest, Olympia, Washington. The matters expected to be acted upon at the meeting are described in the attached Proxy Statement. In addition, we will report on our results of operations during the past year and address your questions and comments.

We encourage you to attend the meeting in person. Whether or not you plan to attend, please read the enclosed Proxy Statement and then complete, sign and date the enclosed proxy card and return it in the accompanying postpaid return envelope, or follow the instructions on the proxy card to vote by phone or via the Internet, as promptly as possible. This will save us the additional expense of soliciting proxies and will ensure that your shares are represented at the annual meeting.

Your Board of Directors and management are committed to the continued success of Heritage Financial Corporation and the enhancement of your investment. As President and Chief Executive Officer, I want to express my sincere appreciation for your confidence and support.

We look forward to seeing you at the meeting.

Sincerely,
Brian L. Vance
President and Chief Executive Officer

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**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS**

**Date:** Wednesday, May 6, 2015

**Time:** 10:30 a.m. Pacific time

**Place:** The Heritage Room on Capitol Lake, 604 Water Street Southwest, Olympia, Washington

**Matters to be voted on:**

1. The election of fourteen directors to each serve for a one-year term.

2. An advisory (non-binding) resolution to approve the compensation paid to our named executive officers, as disclosed in this Proxy Statement.

3. The ratification of the Audit and Finance Committee s appointment of Crowe Horwath LLP as our independent registered public accounting firm for the year ending December 31, 2015.

We will also transact other business that may properly come before the meeting, or any adjournment or postponement thereof.

Shareholders of record at the close of business on March 9, 2015 are entitled to receive notice of and to vote at the annual meeting.

Please vote your shares at your earliest convenience. This will ensure the presence of a quorum at the meeting. Promptly voting your shares via the Internet, by telephone, or by signing, dating, and returning the enclosed proxy card, which is solicited by the Board of Directors, will save us the expense and extra work for additional solicitation. If you wish to vote by mail, we have enclosed an addressed envelope, postage prepaid if mailed in the United States. The proxy will not be used if you attend and vote at the annual meeting in person. Regardless of the number of shares you own, your vote is very important. Please act today.

By Order of the Board of Directors

Kaylene M. Lahn

Senior Vice President and Corporate Secretary

Olympia, Washington

March 20, 2015

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# PROXY STATEMENT

## 2015 ANNUAL MEETING OF SHAREHOLDERS

**HERITAGE FINANCIAL CORPORATION**

201 Fifth Avenue S.W.

Olympia, Washington 98501

(360) 943-1500

The Board of Directors of Heritage Financial Corporation is using this Proxy Statement to solicit proxies from our shareholders for use at the annual meeting of shareholders. We are first mailing this Proxy Statement and the enclosed form of proxy to our shareholders on or about March 20, 2015.

The information provided in this Proxy Statement relates to Heritage Financial Corporation and its wholly-owned bank subsidiary, Heritage Bank. Heritage Financial Corporation may also be referred to as Heritage or the Company. All references in this Proxy Statement to Heritage, we, us and our or similar references mean Heritage Financial Corporation and its consolidated subsidiaries and all references to Heritage Financial Corporation mean Heritage Financial Corporation excluding its subsidiaries, in each case unless otherwise expressly stated or the context requires otherwise.

## INFORMATION ABOUT THE ANNUAL MEETING

**Time and Place of the Annual Meeting**

Our annual meeting will be held as follows:

| | |
|---|---|
| **Date:** | Wednesday, May 6, 2015 |
| **Time:** | 10:30 a.m., Pacific time |
| **Place:** | The Heritage Room on Capitol Lake, 604 Water Street Southwest, Olympia, Washington |

**Matters to Be Considered at the Annual Meeting**

At the meeting, you will be asked to consider and vote on:

The election of fourteen directors to each serve for a one-year term.

An advisory, non-binding, resolution to approve the compensation paid to our named executive officers, as disclosed in this Proxy Statement.

- The ratification of the Audit and Finance Committee s appointment of Crowe Horwath LLP as our independent registered public accounting firm for the year ending December 31, 2015.

We will also transact any other business that may properly come before the annual meeting. As of the date of this Proxy Statement, we are not aware of any business to be presented for consideration at the annual meeting other than the matters described in this Proxy Statement.

**Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of Shareholders to Be Held on May 6, 2015**

Our Proxy Statement and Annual Report to Shareholders are available at www.hf-wa.com. The following materials are available for review:

- Proxy Statement;

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Proxy Card;

Annual Report to Shareholders; and

Directions to attend the annual meeting, where you may vote in person.

**Who is Entitled to Vote?**

We have fixed the close of business on March 9, 2015, as the record date for shareholders entitled to notice of and to vote at our annual meeting. Only holders of record of Heritage s common stock on that date are entitled to notice of and to vote at the annual meeting. You are entitled to one vote for each share of Heritage common stock you own, unless you acquired more than 10% of Heritage s common stock without prior Board approval. As provided in our Articles of Incorporation, for each vote in excess of 10% of the voting power of the outstanding shares of Heritage s voting stock, the record holders in the aggregate will be entitled to cast one-hundredth of a vote, and the aggregate power of these record holders will be allocated proportionately among these record holders. On March 9, 2015, there were 30,250,014 shares of Heritage common stock outstanding and entitled to vote at the annual meeting.

**How Do I Vote at the Annual Meeting?**

Proxies are solicited to provide all shareholders on the voting record date an opportunity to vote on matters scheduled for the annual meeting and described in these materials. This answer provides voting instructions for shareholders of record. You are a shareholder of record if your shares of Heritage common stock are held in your name. If you are a beneficial owner of Heritage common stock held by a broker, bank or other nominee (i.e., in street name ), please see the instructions in the following question.

Shares of Heritage common stock can only be voted if the shareholder is present in person or by proxy at the annual meeting. To ensure your representation at the annual meeting, we recommend you vote by proxy even if you plan to attend the annual meeting. You can always change your vote at the meeting if you are a shareholder of record.

Voting instructions are included on your proxy card. Shares of Heritage common stock represented by properly executed proxies will be voted by the individuals named on the proxy card in accordance with the shareholder s instructions. Where properly executed proxies are returned to us with no specific instruction as to how to vote at the annual meeting, the persons named in the proxy will vote the shares FOR the election of each of our director nominees, FOR advisory approval of the compensation of our named executive officers as disclosed in this Proxy Statement and FOR ratification of the appointment of Crowe Horwath LLP as our independent registered public accounting firm for the year ending December 31, 2015. If any other matters are properly presented at the annual meeting for action, the persons named in the enclosed proxy and acting thereunder will have the discretion to vote on those matters in accordance with their best judgment. We do not currently expect that any other matters will be properly presented for action at the annual meeting.

You may receive more than one proxy card depending on how your shares are held. For example, you may hold some of your shares individually, some jointly with your spouse and some in trust for your children. In this case, you will receive three separate proxy cards to vote.

**What if My Shares Are Held in Street Name by a Broker?**

If you are the beneficial owner of shares held in street name by a broker, your broker, as the record holder of the shares, is required to vote the shares in accordance with your instructions. If you do not

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give instructions to your broker, your broker may nevertheless vote the shares with respect to discretionary items, but will not be permitted to vote your shares with respect to non-discretionary items, pursuant to current industry practice. In the case of non-discretionary items, the shares not voted will be treated as broker non-votes. The proposals for the election of directors and the advisory vote on executive compensation are considered non-discretionary items; therefore, you must provide instructions to your broker in order to have your shares voted on these proposals.

If your shares are held in street name, you will need proof of ownership to be admitted to the annual meeting. A recent brokerage statement or letter from the record holder of your shares are examples of proof of ownership. If you want to vote your shares of common stock held in street name in person at the annual meeting, you will have to get a written proxy in your name from the broker, bank or other nominee who holds your shares.

**How Will My Shares of Common Stock Held in the 401(k) Profit Sharing Plan Be Voted?**

We maintain a 401(k) profit sharing plan ( Plan ) which owned 437,684 shares or 1.4% of Heritage s common stock as of the record date. Our employees participate in the Plan. Each Plan participant may instruct the trustee of the Plan how to vote the shares of Heritage common stock allocated to his or her account under the Plan by completing a vote authorization form. If a Plan participant properly executes a vote authorization form, the Plan trustee will vote the participant s shares in accordance with the participant s instructions. Plan shares for which proper voting instructions are not received will not be voted. In order to give the trustee sufficient time to vote, all vote authorization forms, which are in the form of a proxy card, must be received from Plan participants by the transfer agent on or before April 29, 2015.

**How Many Shares Must Be Present to Hold the Meeting?**

A quorum must be present at the meeting for any business to be conducted. The presence at the meeting, in person or by proxy, of at least a majority of the shares of Heritage common stock entitled to vote at the annual meeting as of the record date will constitute a quorum. Proxies received but marked as abstentions or broker non-votes will be included in the calculation of the number of shares considered to be present at the meeting.

**What if a Quorum Is Not Present at the Meeting?**

If a quorum is not present at the scheduled time of the meeting, a majority of the shareholders present or represented by proxy may adjourn the meeting until a quorum is present. The time and place of the adjourned meeting will be announced at the time the adjournment is taken, and no other notice will be given unless a new record date for the meeting is set. An adjournment will have no effect on the business that may be conducted at the meeting.

**Vote Required to Approve Proposal 1: Election of Directors**

Directors are elected by a plurality of the votes cast, in person or by proxy, at the annual meeting by holders of Heritage common stock. Accordingly, the 14 nominees for election as directors who receive the highest number of votes actually cast will be elected. Pursuant to our Articles of Incorporation, shareholders are not permitted to cumulate their votes for the election of directors. Votes may be cast for or withheld from each nominee. Votes that are withheld and broker non-votes will have no effect on the outcome of the election because the 14 nominees receiving the greatest number of votes will be elected. **Our Board of Directors unanimously recommends that you vote FOR the election of each of its director nominees.**

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**Vote Required to Approve Proposal 2: Advisory Vote on Executive Compensation**

Approval of the advisory (non-binding) resolution to approve the compensation paid to our named executive officers requires the affirmative vote of the majority of the shares of Heritage common stock present, in person or by proxy, and entitled to vote at the annual meeting. Abstentions are not affirmative votes and, therefore, will have the same effect as a vote against the proposal. Broker non-votes are not entitled to vote and therefore will have no effect on the approval of the proposal. **Our Board of Directors unanimously recommends that you vote FOR the adoption of an advisory resolution to approve our executive compensation as disclosed in this Proxy Statement.**

**Vote Required to Approve Proposal 3: Ratification of the Appointment of Our Independent Registered Public Accounting Firm**

Ratification of the Audit and Finance Committee s appointment of Crowe Horwath LLP as our independent registered public accounting firm for the year ending December 31, 2015, requires the affirmative vote of the majority of the shares of Heritage common stock present, in person or by proxy, and entitled to vote at the annual meeting by holders of Heritage common stock. Abstentions are not affirmative votes and, therefore, will have the same effect as a vote against the proposal. **Our Board of Directors unanimously recommends that you vote FOR the proposal to ratify the appointment of Crowe Horwath LLP as our independent registered public accounting firm for the year ending December 31, 2015.**

**May I Revoke My Proxy?**

You may revoke your proxy before it is voted by:

- submitting a new proxy with a later date;
- notifying the Corporate Secretary of Heritage in writing before the annual meeting that you have revoked your proxy; or
- voting in person at the annual meeting.

If you plan to attend the annual meeting and wish to vote in person, we will give you a ballot at the annual meeting. However, if your shares are held in street name, you must bring a validly executed proxy from the nominee indicating that you have the right to vote the shares.

**SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The following tables set forth, as of the record date or the most currently reported date, information regarding share ownership of:

- those persons or entities (or groups of affiliated persons or entities) known by management to beneficially own more than five percent of Heritage s common stock other than directors and executive officers;
- each director of Heritage;
- each executive officer of Heritage named in the Summary Compensation Table appearing under Executive Compensation below (known as named executive officers ); and
- all current directors and executive officers of Heritage as a group.

On March 9, 2015, there were 30,250,014 shares of Heritage common stock outstanding.

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Persons and groups who beneficially own in excess of five percent of Heritage s common stock are required to file with the Securities and Exchange Commission ( SEC ), and provide a copy to Heritage, reports disclosing their ownership pursuant to the Securities Exchange Act of 1934, as amended ( Securities Exchange Act ). To our knowledge, no other person or entity, other than the ones set forth below, beneficially owned more than five percent of the outstanding shares of Heritage s common stock as of the close of business on December 31, 2014, the most recent date for which ownership information is available.

| Beneficial Owners of More Than 5% | Number of Shares Beneficially Owned | Percent of Common Stock Outstanding |
|---|---|---|
| Forest Hill Capital, L.L.C. and Mark Lee(1)<br>100 Morgan Keegan Drive, Suite 430<br>Little Rock, Arkansas 72202 | 2,172,590 | 7.2% |
| BlackRock Inc.(2)<br>55 East 52nd Street<br>New York, New York 10022 | 1,693,431 | 5.6% |
| APG Asset Management US Inc.(3)<br>666 Third Avenue, 2nd Floor<br>New York, NY 10017 | 1,692,605 | 5.6% |

(1) According to a Schedule 13G filed with the SEC on February 13, 2015, Forest Hill Capital, L.L.C. and Mark Lee as principal have shared voting power over 762,199 shares and shared dispositive power over 2,172,590 shares.
(2) According to a Schedule 13G filed with the SEC on February 2, 2015, BlackRock Inc. has sole voting power over 1,617,908 shares and sole dispositive power over 1,693,431 shares.
(3) According to a Schedule 13G filed with the SEC on January 30, 2015, APG Asset Management US Inc. has sole voting and dispositive power over the shares reported.

Beneficial ownership is determined in accordance with the rules and regulations of the SEC. In accordance with Rule 13d-3 of the Securities Exchange Act, a person is deemed to be the beneficial owner of any shares of common stock if he or she has voting and/or investment power with respect to those shares. Therefore, the table below includes shares owned by spouses, other immediate family members in trust, shares held in retirement accounts or funds for the benefit of our named individuals, and other forms of ownership, over which shares the persons named in the table may possess voting and/or investment power. In addition, in computing the number of shares beneficially owned by a person and the percentage ownership of that person, shares of common stock subject to outstanding options that are currently exercisable or exercisable within 60 days after March 9, 2015 are included in the number of shares beneficially owned by the person and are deemed outstanding for the purpose of calculating the person s percentage ownership. These shares, however, are not deemed outstanding for the purpose of computing the percentage ownership of any other person.

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The following table shows, as of March 9, 2015, the amount of Heritage common stock owned (unless otherwise indicated) by each director, named executive officers and all of our directors and executive officers as a group.

| Directors & Officers | Number of Shares Beneficially Owned | Percent of Common Stock Outstanding |
|---|---|---|
| Rhoda L. Altom[(1)] | 4,392 | * |
| David H. Brown[(2)] | 95,534 | * |
| Brian S. Charneski[(3)] | 40,363 | * |
| Gary B. Christensen[(4)] | 59,314 | * |
| John A. Clees[(5)] | 69,058 | * |
| Mark D. Crawford | 9,468 | * |
| Deborah J. Gavin | 2,574 | * |
| Kimberly T. Ellwanger[(6)] | 16,693 | * |
| Jeffrey S. Lyon[(7)] | 37,261 | * |
| Gragg E. Miller[(8)] | 21,736 | * |
| Anthony B. Pickering[(9)] | 60,613 | * |
| Robert T. Severns[(10)] | 12,345 | * |
| Ann Watson[(11)] | 6,480 | * |
| Brian L. Vance[(12)] | 176,225 | * |
| Jeffrey J. Deuel[(13)] | 56,010 | * |
| Donald J. Hinson[(14)] | 44,954 | * |
| Bryan McDonald[(15)] | 37,115 | * |
| David A. Spurling[(16)] | 41,485 | * |
| **Directors and Executive Officers as a group (19 persons)** | **802,196** | **2.7%** |

* Less than one percent of shares outstanding

(1) Includes 347 shares held in her son s IRA and 333 shares held in her daughter s IRA.

(2) All shares are owned jointly with his spouse.

(3) Includes 1,000 shares issuable upon exercise of options, 22,533 shares held jointly with his spouse, 10,675 shares owned by an entity controlled by Mr. Charneski and 420 shares held in trust.

(4) Includes 2,600 shares issuable upon exercise of options, 30,157 shares held jointly with his spouse and 21,400 shares owned by entities controlled by Mr. Christensen.

(5) Includes 1,000 shares issuable upon exercise of options, 66,850 shares held jointly with his spouse, 1,050 shares owned solely by his spouse and 2,500 shares owned by an entity controlled by Mr. Clees.

(6) Includes 1,000 shares issuable upon exercise of options and 14,441 held jointly with her spouse.

(7) Includes 1,000 shares issuable upon exercise of options and 3,150 shares held as custodian for a minor.

(8) Includes 4,672 shares within a SEP.

(9) Includes 3,092 shares issuable upon exercise of options, 48,144 shares held jointly with his spouse, 4,062 shares in an IRA solely owned by Mr. Pickering and 4,062 shares in an IRA solely owned by his spouse.

(10) Includes 3,485 shares held in an IRA.

(11) Includes 5,228 shares held jointly with her spouse.

(12) Includes 95,299 shares held jointly with his spouse and 18,925 vested shares in the 401(k) plan.

(13) Includes 20,000 shares issuable upon exercise of options and 369 vested shares in the 401(k) plan.

(14) Includes 6,330 shares issuable upon exercise of options and 1,756 vested shares in the 401(k) plan.

(15) Includes 6,548 shares issuable upon exercise of options and 8,933 vested shares in the 401(k) plan.

(16) Includes 6,187 shares issuable upon exercise of options, 16,585 shares held jointly with his spouse and 9,127 vested shares in the 401(k) plan.

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## PROPOSAL 1 ELECTION OF DIRECTORS

Our Board of Directors consists of 14 members and the terms of all current members expire at the 2015 annual meeting. Upon recommendation of the Governance and Nominating Committee, each of these incumbent directors has been nominated by the Board to serve a one-year term ending at the 2016 annual meeting, or when their respective successors have been duly elected and qualified.

The table below sets forth information regarding each director of Heritage and each nominee for director, including his or her age, position and term of office. Each nominee has consented to being named in this Proxy Statement and has agreed to serve if elected. If a nominee is unable to stand for election, the Board of Directors may either reduce the number of directors to be elected or select a substitute nominee. If a substitute nominee is selected, the proxy holders will vote your shares for the substitute nominee, unless you have withheld authority. At this time, we are not aware of any reason why a nominee might be unable to serve if elected.

**The Board of Directors recommends you vote FOR the election of each of the nominees in the table below.**

| | | | Director | Term to |
|---|---|---|---|---|
| **Name** | **Age(1)** | **Position(s) Held with Heritage** | **Since** | **Expire(2)** |
| Rhoda L. Altom | 57 | Director | 2013* | 2016 |
| David H. Brown | 69 | Director | 2013 | 2016 |
| Brian S. Charneski | 53 | Vice Chairman | 2000 | 2016 |
| Gary B. Christensen | 66 | Director | 2005 | 2016 |
| John A. Clees | 67 | Director | 2005 | 2016 |
| Mark D. Crawford | 54 | Director | 2011* | 2016 |
| Kimberly T. Ellwanger | 55 | Director | 2006 | 2016 |
| Deborah J. Gavin | 58 | Director | 2013* | 2016 |
| Jeffrey S. Lyon | 62 | Director | 2001 | 2016 |
| Gragg E. Miller | 63 | Director | 2009* | 2016 |
| Anthony B. Pickering | 67 | Chairman | 1996* | 2016 |
| Robert T. Severns | 64 | Director | 2010* | 2016 |

| | | |
|---|---|---|
| 33 | 44 | |
| Provision for loan losses | 34 | 692 |
| Gain on sale of securities | | (1,344) |
| Loss on early extinguishment of debt | | 3,699 |
| Net amortization of fees, premiums and discounts | (69) | (2) |
| Decrease in accrued interest receivable | 85 | 177 |
| Decrease (increase) in other assets | 207 | (69) |
| Loss on sale of foreclosed real estate | 166 | |
| Write-down of foreclosed real estate | 180 | |
| Increase (decrease) in official checks and other liabilities | 508 | (192) |
| Net cash used in operating activities | (13) | (101) |
| Cash flows from investing activities: | | |
| Purchases of securities held to maturity | (5,048) | |
| Principal repayments of securities held to maturity | 3,405 | 2,585 |
| Proceeds from sale of securities | | 45,428 |
| Net decrease in loans | 2,463 | 1,710 |
| Purchases of premises and equipment | (4) | (7) |
| Proceeds from sale of foreclosed real estate, net | 1,643 | |
| Net cash provided by investing activities | 2,459 | 49,716 |

| | | |
|---|---|---|
| Cash flows from financing activities: | | |
| Net (decrease) increase in deposits | (5,940) | 8,590 |
| Net decrease in other borrowings | | (44,764) |
| Repayment of Federal Home Loan Bank advances | | (16,735) |
| Net increase in advanced payments by borrowers for taxes and insurance | 85 | 207 |
| Net cash used in financing activities | (5,855) | (52,702) |
| Net decrease in cash and cash equivalents | (3,409) | (3,087) |
| Cash and cash equivalents at beginning of the period | 14,367 | 36,784 |
| Cash and cash equivalents at end of the period | $ 10,958 | $ 33,697 |

(continued)

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**OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY**

**Condensed Consolidated Statements of Cash Flows (Unaudited), Continued**

**(In thousands)**

| | Three Months Ended March 31, 2011 | Three Months Ended March 31, 2010 |
|---|---|---|
| Supplemental disclosure of cash flow information: | | |
| Cash paid during the period for: | | |
| Interest | $ 902 | $ 1,794 |
| Income taxes | $ | $ |
| Noncash transaction- | | |
| Loans transferred to foreclosed real estate | $ 4,957 | $ 536 |

See Accompanying Notes to Condensed Consolidated Financial Statements.

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**OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY**

**Notes to Condensed Consolidated Financial Statements (unaudited)**

**(1)** ***General.*** OptimumBank Holdings, Inc. (the Holding Company ) is a one-bank holding company and owns 100% of OptimumBank (the Bank ), a state (Florida)-chartered commercial bank. The Bank s wholly-owned subsidiaries are OB Real Estate Management, LLC, OB Real Estate Holdings, LLC and OB Real Estate Holding 1503, LLC, all of which were formed in 2009 and OB Real Estate Holdings 1695, OB Real Estate Holdings 1669, OB Real Estate Holdings 1645 and OB Real Estate Holdings 1565, all formed in 2010. The Holding Company s only business is the operation of the Bank and its subsidiaries (collectively, the Company ). The Bank s deposits are insured up to applicable limits by the Federal Deposit Insurance Corporation ( FDIC ). The Bank offers a variety of community banking services to individual and corporate customers through its three banking offices located in Broward County, Florida. OB Real Estate Management, LLC is primarily engaged in managing foreclosed real estate. This subsidiary had no activity in 2011 and 2010. All other subsidiaries are primarily engaged in holding and disposing of foreclosed real estate.

In the opinion of the management, the accompanying condensed consolidated financial statements of the Company contain all adjustments (consisting principally of normal recurring accruals) necessary to present fairly the financial position at March 31, 2011, and the results of operations and cash flows for the three-month periods ended March 31, 2011 and 2010. The results of operations for the three months ended March 31, 2011, are not necessarily indicative of the results to be expected for the full year.

**Going Concern**. The Company s recent and continuing increases in nonperforming assets, declining net interest margin, continuing high levels of noninterest expenses related to the credit problems, and eroding regulatory capital raise substantial doubt about the Company s ability to continue as a going concern.

The Bank has not complied with its regulatory capital requirements set forth in the Consent Order issued by the FDIC and the Florida Office of Financial Regulation ( OFR ) discussed in Note 9, as well as the FDIC regulatory framework for prompt corrective action. The Company needs to raise substantial additional capital for it return to profitability and continue operations. Since January 2011, the Company has conducted a private placement offering of its common stock to increase regulatory capital. There can be no assurance, however, that the Company will raise sufficient capital, if any, in the private placement offering, to meet the Bank s capital requirements. Further, there can be no assurance that other financing alternatives or recapitalization plans will be available, forthcoming or successfully implemented, or receive regulatory approval. If the Company is unable to raise capital and the Bank s regulatory capital levels continue to decline, the regulators may take additional enforcement action against the Bank, including placing the Bank into conservatorship or receivership, to protect the interests of depositors insured by the FDIC.

(continued)

**OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY**

**Notes to Condensed Consolidated Financial Statements (unaudited), Continued**

**(2)** ***Securities.*** Securities have been classified according to management s intent. The carrying amount of securities and approximate fair values are as follows (in thousands):

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| **Securities Held to Maturity:** | | | | |
| ***At March 31, 2011:*** | | | | |
| Mortgage-backed securities | $ 52,688 | $ 142 | $ (1,144) | $ 51,686 |
| State of Israel bond | 100 | | | 100 |
| | $ 52,788 | $ 142 | $ (1,144) | $ 51,786 |
| ***At December 31, 2010:*** | | | | |
| Mortgage-backed securities | $ 50,957 | $ 130 | $ (2,348) | $ 48,739 |
| State of Israel bond | 100 | | | 100 |
| | $ 51,057 | $ 130 | $ (2,348) | $ 48,839 |

During the first quarter of 2010, the Company sold twenty-two securities in order to downsize and deleverage its balance sheet. This action was taken in an effort to comply with a significant increase in the regulatory capital requirements imposed on the Bank under a Consent Order issued by the FDIC and OFR (see Note 9). The securities were sold for gross proceeds of $45.4 million. A gain of $1.3 million was recognized from the sale of these securities.

Securities with gross unrealized losses at March 31, 2011, aggregated by investment category and length of time that individual securities have been in a continuous loss position, is as follows (in thousands):

| | Less Than Twelve Months | | Over Twelve Months | |
|---|---|---|---|---|
| | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses | Fair Value |
| **Securities Held to Maturity-** | | | | |
| Mortgage-backed securities | $ 221 | $ 18,050 | $ 923 | $ 17,853 |

(continued)

**OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY**

**Notes to Condensed Consolidated Financial Statements (unaudited), Continued**

**(2)** ***Securities, Continued.*** Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. A security is impaired if the fair value is less than its carrying value at the financial statement date. When a security is impaired, the Company determines whether this impairment is temporary or other-than-temporary. In estimating other-than-temporary impairment ( OTTI ) losses, management assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of these criteria is met, the entire difference between amortized cost and fair value is recognized in operations. For securities that do not meet the aforementioned criteria, the amount of impairment recognized in operations is limited to the amount related to credit losses, while impairment related to other factors is recognized in other comprehensive loss. Management utilizes cash flow models to segregate impairments to distinguish between impairment related to credit losses and impairment related to other factors. To assess for OTTI, management considers, among other things, (i) the severity and duration of the impairment; (ii) the ratings of the security; (iii) the overall transaction structure (the Company s position within the structure, the aggregate, near-term financial performance of the underlying collateral, delinquencies, defaults, loss severities, recoveries, prepayments, cumulative loss projections, and discounted cash flows); and (iv) the timing and magnitude of a break in modeled cash flows.

In evaluating mortgage-backed securities with unrealized losses greater than twelve months, management utilizes various resources, including input from independent third party firms to perform an analysis of expected future cash flows. The process begins with an assessment of the underlying collateral backing the mortgage pools. Management develops specific assumptions using as much market data as possible and includes internal estimates as well as estimates published by rating agencies and other third-party sources. The data for the individual borrowers in the underlying mortgage pools are generally segregated by state, FICO score at issue, loan to value at issue and income documentation criteria. Mortgage pools are evaluated for current and expected levels of delinquencies and foreclosures, based on where they fall in the proscribed data set of FICO score, geographics, LTV and documentation type and a level of loss severity is assigned to each security based on its experience. The above-described historical data is used to develop current and expected measures of cumulative default rates as well as ultimate loss frequency and severity within the underlying mortgages. This reveals the expected future cash flows within the mortgage pool. The data described above is then input to an industry recognized model to assess the behavior of the particular security tranche owned by the Company. Significant inputs in this process include the structure of any subordination structures, if applicable, and are dictated by the structure of each particular security as laid out in the offering documents. The forecasted cash flows from the mortgage pools are input through the security structuring model to derive expected cash flows for the specific security owned by the Company to determine if the future cash flows are expected to exceed the book value of the security. The values for the significant inputs are updated on a regular basis. Based on management s analysis, there was no OTTI charge during 2010 or 2011. In 2009, an OTTI charge of $179,000 was recorded on five securities with a carrying value of $8,120,000 at March 31, 2011. There have been no subsequent OTTI charges related to these securities since 2009.

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**OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY**

**Notes to Condensed Consolidated Financial Statements (unaudited), Continued**

**(2)** ***Securities, Continued.*** The unrealized losses on fourteen investment securities were caused by market conditions. It is expected that the securities would not be settled at a price less than the book value of the investments. Because the decline in fair value is attributable to market conditions and not credit quality, and because the Company has the ability and intent to hold these investments until a market price recovery or maturity, these investments are not considered other-than-temporarily impaired.

**(3)** ***Loans.*** The components of loans are as follows (in thousands):

| | At March 31, 2011 | At December 31, 2010 |
|---|---|---|
| Residential real estate | $ 37,697 | $ 40,130 |
| Multi-family real estate | 4,186 | 4,213 |
| Commercial real estate | 53,166 | 55,119 |
| Land and construction | 14,058 | 17,292 |
| Consumer | 337 | 358 |
| Total loans | 109,444 | 117,112 |
| Add (deduct): | | |
| Net deferred loan fees, costs and premiums | 146 | 134 |
| Loan discounts | (1) | (1) |
| Allowance for loan losses | (3,520) | (3,703) |
| Loans, net | $ 106,069 | $ 113,542 |

An analysis of the change in the allowance for loan losses for the periods ended March 31, 2011 and 2010 follows (in thousands):

| | Residential Real Estate | Multi-Family Real Estate | Commercial Real Estate | Land And Construction | Consumer | Total | At March 31, 2010 |
|---|---|---|---|---|---|---|---|
| Beginning balance | $ 1,285 | $ 282 | $ 1,542 | $ 514 | $ 80 | $ 3,703 | $ 9,363 |
| Provision (credit) for loan losses | 27 | 23 | (97) | 90 | (9) | 34 | 692 |
| Charge-offs | | | | (245) | | (245) | (3,212) |
| Recoveries | 2 | | | 23 | 3 | 28 | |
| Ending balance | $ 1,314 | $ 305 | $ 1,445 | $ 382 | $ 74 | $ 3,520 | $ 6,843 |
| Individually evaluated for impairment: | | | | | | | |
| Recorded investment | $ 12,047 | $ | $ 19,488 | $ 9,052 | $ 229 | $ 40,816 | $ 37,857 |
| Balance in allowance for loan losses | $ | $ | $ 11 | $ 199 | $ | $ 210 | $ 3,085 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Collectively evaluated for impairment: | | | | | | | |
| Recorded investment | $ 25,650 | $ 4,186 | $ 33,678 | $ 5,006 | $ 108 | $ 68,628 | $ 99,874 |
| Balance in allowance for loan losses | $ 1,314 | $ 305 | $ 1,434 | $ 183 | $ 74 | $ 3,310 | $ 3,758 |

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**OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY**

**Notes to Condensed Consolidated Financial Statements (unaudited), Continued**

**(3)** ***Loans, Continued.*** The following summarizes the loan credit quality (in thousands):

| | Pass | OLEM (Other Loans Especially Mentioned) | Substandard | Doubtful | Loss | Total |
|---|---|---|---|---|---|---|
| ***At March 31, 2011:*** | | | | | | |
| Residential real estate: | | | | | | |
| Closed-end mortgages first mortgages | $ 21,682 | $ 4,975 | $ 7,847 | $ | $ | $ 34,504 |
| Closed-end second mortgages | 3,193 | | | | | 3,193 |
| Total residential real estate | 24,875 | 4,975 | 7,847 | | | 37,697 |
| Multi-family real estate | 4,186 | | | | | 4,186 |
| Commercial real estate: | | | | | | |
| Owner-occupied | 12,892 | 1,232 | 373 | | | 14,497 |
| Non-owner-occupied | 17,898 | 3,629 | 17,142 | | | 38,669 |
| Total commercial real estate | 30,790 | 4,861 | 17,515 | | | 53,166 |
| Land and construction | 4,956 | 1,667 | 7,435 | | | 14,058 |
| Consumer: | | | | | | |
| Non-real estate secured | 79 | | 150 | | | 229 |
| Real estate secured | 108 | | | | | 108 |
| Total consumer | 187 | | 150 | | | 337 |
| Total | $ 64,994 | $ 11,503 | $ 32,947 | $ | $ | $ 109,444 |
| ***At December 31, 2010:*** | | | | | | |
| Residential real estate: | | | | | | |
| Closed-end mortgages first mortgages | $ 23,542 | $ 3,697 | $ 9,691 | $ | $ | $ 36,930 |
| Closed-end second mortgages | 3,200 | | | | | 3,200 |
| Total residential real estate | 26,742 | 3,697 | 9,691 | | | 40,130 |
| Multi-family real estate | 4,213 | | | | | 4,213 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Commercial real estate: | | | | | | |
| Owner-occupied | 12,960 | 1,238 | 1,837 | | | 16,035 |
| Non-owner-occupied | 18,042 | 3,638 | 17,404 | | | 39,084 |
| Total commercial real estate | 31,002 | 4,876 | 19,241 | | | 55,119 |
| Land and construction | 4,976 | 1,667 | 10,649 | | | 17,292 |
| Consumer: | | | | | | |
| Non-real estate secured | 99 | | 151 | | | 250 |
| Real estate secured | 108 | | | | | 108 |
| Total consumer | 207 | | 151 | | | 358 |
| Total | $ 67,140 | $ 10,240 | $ 39,732 | $ | $ | $ 117,112 |

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**OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY**

**Notes to Condensed Consolidated Financial Statements (unaudited), Continued**

**(3)** ***Loans, Continued.*** Internally assigned loan grades are defined as follows:
Pass a Pass loan s primary source of loan repayment is satisfactory, with secondary sources very likely to be realized if necessary. These are loans that conform in all aspects to bank policy and regulatory requirements, and no repayment risk has been identified.

OLEM (Other Loans Especially Mentioned) an Other Loan Especially Mentioned has potential weaknesses that deserve management s close attention. If left uncorrected, these potential weaknesses may result in the deterioration of the repayment prospects for the asset or the Company s credit position at some future date.

Substandard a Substandard loan is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

Doubtful a loan classified Doubtful has all the weaknesses inherent in one classified Substandard, with the added characteristics that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. This classification does not mean that the asset has absolutely no recovery or salvage value, but rather it is not practical or desirable to defer writing off this basically worthless asset even though partial recovery may be affected in the future. The Company fully charges off any loan classified as Doubtful.

Loss a loan classified Loss is considered uncollectible and of such little value that continuance as a bankable asset is not warranted. This classification does not mean that the asset has absolutely no recovery or salvage value, but rather it is not practical or desirable to defer writing off this basically worthless asset even though partial recovery may be affected in the future. The Company fully charges off any loan classified as Loss.

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**OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY**

**Notes to Condensed Consolidated Financial Statements (unaudited), Continued**

**(3)** ***Loans, Continued.*** Age analysis of past-due loans is as follows (in thousands):

| | 30-59 Days Past Due | 60-89 Days Past Due | Accruing Loans Greater Than 90 Days Past Due | Total Past Due | Current | Nonaccrual Loans | Total Loans |
|---|---|---|---|---|---|---|---|
| ***At March 31, 2011:*** | | | | | | | |
| Residential real estate: | | | | | | | |
| Closed-end first mortgages | $ | $ | $ | $ | $ 25,375 | $ 9,129 | $ 34,504 |
| Closed-end second mortgages | | | | | 3,193 | | 3,193 |
| Subtotal | | | | | 28,568 | 9,129 | 37,697 |
| Multi-family real estate | | | | | 4,186 | | 4,186 |
| Commercial real estate: | | | | | | | |
| Owner-occupied | | | | | 14,125 | 372 | 14,497 |
| Non-owner-occupied | | | | | 23,122 | 15,547 | 38,669 |
| Subtotal | | | | | 37,247 | 15,919 | 53,166 |
| Land and construction | | | | | 5,006 | 9,052 | 14,058 |
| Consumer: | | | | | | | |
| Non-real estate secured | | | | | 79 | 150 | 229 |
| Real estate secured | | | | | 108 | | 108 |
| Subtotal | | | | | 187 | 150 | 337 |
| Total | $ | $ | $ | $ | $ 75,194 | $ 34,250 | $ 109,444 |
| ***At December 31, 2010:*** | | | | | | | |
| Residential real estate: | | | | | | | |
| Closed-end first mortgages | $ | $ | $ | $ | $ 27,239 | $ 9,691 | $ 36,930 |
| Closed-end second mortgages | | | | | 3,200 | | 3,200 |
| Subtotal | | | | | 30,439 | 9,691 | 40,130 |
| Multi-family real estate | | | | | 4,213 | | 4,213 |
| Commercial real estate: | | | | | | | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Owner-occupied | | | | | 14,198 | 1,837 | 16,035 |
| Non-owner-occupied | 3,195 | | | 3,195 | 20,881 | 15,008 | 39,084 |
| Subtotal | 3,195 | | | 3,195 | 35,079 | 16,845 | 55,119 |
| Land and construction | | | | | 9,449 | 7,843 | 17,292 |
| Consumer: | | | | | | | |
| Non-real estate secured | 99 | | | 99 | | 151 | 250 |
| Real estate secured | | | | | 108 | | 108 |
| Subtotal | 99 | | | 99 | 108 | 151 | 358 |
| Total | $ 3,294 | $ | $ | $ 3,294 | $ 79,288 | $ 34,530 | $ 117,112 |

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**OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY**

**Notes to Condensed Consolidated Financial Statements (unaudited), Continued**

**(3)** ***Loans, Continued.*** The following summarizes the amount of impaired loans (in thousands):

| | At March 31, 2011 | | | At December 31, 2010 | | |
|---|---|---|---|---|---|---|
| | Recorded Investment | Unpaid Principal Balance | Related Allowance | Recorded Investment | Unpaid Principal Balance | Related Allowance |
| With no related allowance recorded: | | | | | | |
| Residential real estate- | | | | | | |
| Closed-end first mortgages | $ 12,047 | $ 13,435 | $ | $ 12,608 | $ 14,272 | $ |
| Commercial real estate: | | | | | | |
| Owner-occupied | 372 | 392 | | 1,837 | 1,857 | |
| Non-owner-occupied | 17,942 | 20,168 | | 18,204 | 20,466 | |
| Land and construction | 7,435 | 10,494 | | 9,980 | 15,018 | |
| Consumer- | | | | | | |
| Non-real estate secured | 229 | 229 | | 249 | 249 | |
| With an allowance recorded: | | | | | | |
| Commercial real estate- | | | | | | |
| Non-owner-occupied | 1,174 | 1,174 | 11 | 1,174 | 1,174 | 11 |
| Land and construction | 1,617 | 1,617 | 199 | 669 | 669 | 75 |
| Total: | | | | | | |
| Residential real estate- | | | | | | |
| Closed-end first mortgages | $ 12,047 | $ 13,435 | $ | $ 12,608 | $ 14,272 | $ |
| Commercial real estate: | | | | | | |
| Owner-occupied | $ 372 | $ 392 | $ | $ 1,837 | $ 1,857 | $ |
| Non-owner-occupied | $ 19,116 | $ 21,342 | $ 11 | $ 19,378 | $ 21,640 | $ 11 |
| Land and construction | $ 9,052 | $ 12,111 | $ 199 | $ 10,649 | $ 15,687 | $ 75 |
| Consumer- | | | | | | |
| Non-real estate secured | $ 229 | $ 229 | $ | $ 249 | $ 249 | $ |
| Total | $ 40,816 | $ 47,509 | $ 210 | $ 44,721 | $ 53,705 | $ 86 |

The average net investment in impaired loans and interest income recognized and received on impaired loans are as follows (in thousands):

| | For the Period Ending March 31, 2011 | | | For the Year Ended December 31, 2010 | | |
|---|---|---|---|---|---|---|
| | Average Recorded Investment | Interest Income Recognized | Interest Income Received | Average Recorded Investment | Interest Income Recognized | Interest Income Received |
| Residential real estate- | | | | | | |
| Closed-end first mortgages | $ 11,752 | $ 52 | $ 78 | $ 7,081 | $ 20 | $ 35 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Multi-family real estate | $ | $ | $ | $ 387 | $ | $ |
| Commercial real estate: | | | | | | |
| Owner-occupied | $ 751 | $ | $ 1 | $ 1,266 | $ | $ 4 |
| Non-owner-occupied | $ 19,465 | $ 53 | $ 117 | $ 15,279 | $ 267 | $ 366 |
| Land and construction | $ 8,080 | $ 21 | $ 56 | $ 9,965 | $ 26 | $ 253 |
| Consumer- | | | | | | |
| Non-real estate secured | $ 234 | $ 2 | $ 2 | $ 9 | $ | $ |
| Total | $ 40,282 | $ 128 | $ 254 | $ 33,987 | $ 313 | $ 658 |

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**OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY**

**Notes to Condensed Consolidated Financial Statements (unaudited), Continued**

**(4)** ***Regulatory Capital.*** The Bank is required to maintain certain minimum regulatory capital requirements. The following is a summary at March 31, 2011 of the regulatory capital requirements and the Bank s capital on a percentage basis:

| | **Bank** | **Regulatory Requirement** |
|---|---|---|
| Tier I capital to total average assets | 3.54% | 8.00%* |
| Tier I capital to risk-weighted assets | 4.97% | 4.00% |
| Total capital to risk-weighted assets | 6.23% | 12.00%* |

* On July 15, 2010, the Bank became subject to these increased capital requirements imposed under the Consent Order, as discussed in Note 9. The Bank is currently not in compliance with these capital ratios.

**(5)** ***Loss Per Share***. Basic loss per share has been computed on the basis of the weighted-average number of shares of common stock outstanding during the period. Basic and diluted loss per share is the same due to the net loss incurred by the Company. All amounts reflect the one-for-four reverse stock split declared in October 2010. Loss per common share has been computed based on the following:

| | **Three Months Ended March 31,** | |
|---|---|---|
| | **2011** | **2010** |
| Weighted-average number of common shares outstanding used to calculate basic and diluted loss per common share | 819,358 | 819,358 |

**(6)** ***Stock-Based Compensation***. As of December 31, 2005, all stock options were fully vested and no options have been granted since 2005; therefore, no stock-based compensation has been recognized.

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**OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY**

**Notes to Condensed Consolidated Financial Statements (unaudited), Continued**

**(6)** ***Stock-Based Compensation, Continued***. The Company established an Incentive Stock Option Plan (the Plan ) for officers, directors and employees of the Company and reserved 157,680 (amended) shares of common stock for the plan. Both incentive stock options and nonqualified stock options may be granted under the plan. The exercise price of the stock options is determined by the board of directors at the time of grant, but cannot be less than the fair market value of the common stock on the date of grant. The options vest over three and five years. The options must be exercised within ten years from the date of grant. The Plan terminated on February 27, 2011.

All amounts reflect the one-for-four reverse stock split declared in October 2010. A summary of the activity in the Company s stock option plan is as follows:

| | Number of Options | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Term | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Outstanding at December 31, 2010 | 69,132 | $ 30.05 | | |
| Options expired | (10,635) | 18.16 | | |
| Outstanding and exercisable at March 31, 2011 | 58,497 | $ 32.21 | 3.3 years | $ |

**(7)** ***Fair Value Measurements.*** Impaired collateral-dependent loans are carried at fair value when the current collateral value less estimated selling costs is lower than the carrying value of the loan. Those impaired collateral-dependent loans which are measured at fair value on a nonrecurring basis are as follows (in thousands):

| | At March 31, 2011 | | | | | Losses Recorded in Operations For the Period Ended March 31, 2011 |
|---|---|---|---|---|---|---|
| | Fair Value | Level 1 | Level 2 | Level 3 | Total Losses | |
| Residential real estate - | | | | | | |
| Closed-end first mortgages | $ 2,295 | $ | $ | $ 2,295 | $ 561 | $ |
| Commercial real estate: | | | | | | |
| Owner-occupied | 69 | | | 69 | 20 | |
| Non-owner-occupied | 8,632 | | | 8,632 | 2,546 | |
| Land and construction | 5,509 | | | 5,509 | 1,706 | 245 |
| | $ 16,505 | $ | $ | $ 16,505 | $ 4,833 | $ 245 |

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**OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY**

**Notes to Condensed Consolidated Financial Statements (unaudited), Continued**

**(7)** ***Fair Value Measurements, Continued.***

| | At December 31, 2010 | | | | | Losses Recorded in Operations For the Year Ended |
|---|---|---|---|---|---|---|
| | Fair Value | Level 1 | Level 2 | Level 3 | Total Losses | December 31, 2010 |
| Residential real estate - | | | | | | |
| Closed-end first mortgages | $ 4,136 | $ | $ | $ 4,136 | $ 561 | $ 561 |
| Commercial real estate: | | | | | | |
| Owner-occupied | 70 | | | 70 | 20 | 20 |
| Non-owner-occupied | 8,893 | | | 8,893 | 2,583 | 1,857 |
| Land and construction | 7,231 | | | 7,231 | 1,815 | 1,363 |
| | $ 20,330 | $ | $ | $ 20,330 | $ 4,979 | $ 3,801 |

Loans with a carrying value of $15,612,000 and $15,796,000 at March 31, 2011 and December 31, 2010, respectively, were measured for impairment using Level 3 inputs and had a fair value in excess of carrying value.

Foreclosed real estate is recorded at fair value less estimated costs to sell. Foreclosed real estate which is measured at fair value on a nonrecurring basis is as follows (in thousands):

| | Fair Value | Level 1 | Level 2 | Level 3 | Total Losses | Losses Recorded During the Period |
|---|---|---|---|---|---|---|
| At March 31, 2011 | $ 6,183 | $ | $ | $ 6,183 | $ 180 | $ 180 |
| At December 31, 2010 | $ 3,215 | $ | $ | $ 3,215 | $ | $ |

The estimated fair values of the Company s financial instruments were as follows (in thousands):

| | At March 31, 2011 | | At December 31, 2010 | |
|---|---|---|---|---|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Financial assets: | | | | |
| Cash and cash equivalents | $ 10,958 | $ 10,958 | $ 14,367 | $ 14,367 |
| Securities held to maturity | 52,788 | 51,786 | 51,057 | 48,839 |
| Loans | 106,069 | 106,095 | 113,542 | 113,513 |

| | | | | |
|---|---|---|---|---|
| Federal Home Loan Bank stock | 3,173 | 3,173 | 3,173 | 3,173 |
| Accrued interest receivable | 559 | 559 | 644 | 644 |
| Financial liabilities: | | | | |
| Deposit liabilities | 142,298 | 143,090 | 148,238 | 148,929 |
| Federal Home Loan Bank advances | 31,700 | 33,328 | 31,700 | 33,425 |
| Junior subordinated debenture | 5,155 | 4,730 | 5,155 | 4,740 |
| Off-balance sheet financial instruments | | | | |

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**OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY**

**Notes to Condensed Consolidated Financial Statements (unaudited), Continued**

**(7)** ***Fair Value Measurements, Continued.*** Discussion regarding the assumptions used to compute the fair values of financial instruments can be found in Note 1 to the consolidated financial statements included in the Company s annual report on Form 10-K for the year ended December 31, 2010.

**(8)** ***Regulatory Matters- Company.*** The Company is subject to the supervision and regulation of the Board of Governors of the Federal Reserve System (the Federal Reserve ). On June 22, 2010, the Company entered into a written agreement with the Federal Reserve Bank of Atlanta ( Reserve Bank ) with respect to certain aspects of the operation and management of the Company (the Written Agreement ). The Written Agreement contains the following principal requirements:

The board of directors of the Company must take appropriate steps to fully utilize the Company s financial and managerial resources to serve as a source of strength to the Bank, including, but not limited to, taking steps to ensure that the Bank complies with the Consent Order entered into with the OFR and the FDIC and any other supervisory action taken by the Bank s state or federal regulator.

The Company may not declare or pay any dividends without prior Reserve Bank and Federal Reserve approval.

The Company may not, directly or indirectly, take dividends or any other form of payment representing a reduction in capital from the Bank without prior Reserve Bank approval.

The Company and its nonbank subsidiary, OptimumBank Holdings Capital Trust I, may not make any distributions of interest, principal, or other sums on subordinated debentures or trust preferred securities without the prior written approval of the Reserve Bank and the Federal Reserve.

The Company and its nonbank subsidiary, OptimumBank Holdings Capital Trust I, may not, directly or indirectly, incur, increase, or guarantee any debt or purchase or redeem any shares of its stock without the prior written approval of the Reserve Bank.

The Company must obtain prior written consent from the Reserve Bank before appointing any new director or senior executive officer, or changing the responsibilities of any senior executive officer so that the officer would assume a different senior executive officer position, and shall comply with the regulations applicable to indemnification and severance payments.

The Company must provide quarterly progress reports to the Reserve Bank along with parent company only financial statements.

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**OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY**

**Notes to Condensed Consolidated Financial Statements (unaudited), Continued**

**(9)** ***Regulatory Matters- Bank.*** Effective April 16, 2010, the Bank consented to the issuance of a Consent Order by the FDIC and the OFR, also effective as of April 16, 2010.

The Consent Order represents an agreement among the Bank, the FDIC and the OFR as to areas of the Bank s operations that warrant improvement and presents a plan for making those improvements. The Consent Order imposes no fines or penalties on the Bank. The Consent Order will remain in effect and enforceable until it is modified, terminated, suspended, or set aside by the FDIC and the OFR.

The Consent Order contains the following principal requirements:

The Board of Directors of the Bank is required to increase its participation in the affairs of the Bank and assume full responsibility for the approval of sound policies and objectives for the supervision of all of the Bank s activities.

The Bank is required to have and retain qualified and appropriately experienced senior management, including a chief executive officer, a chief lending officer and a chief financial officer, who are given the authority to implement the provisions of the Consent Order.

Any proposed changes in the Bank s Board of Directors or senior executive officers are subject to the prior consent of the FDIC and the OFR.

The Bank is required to maintain both a fully funded allowance for loan and lease losses satisfactory to the FDIC and the OFR and a minimum Tier 1 leverage capital ratio of 8% and a total risk-based capital ratio of 12% for as long as the Consent Order remains in effect.

The Bank must undertake over a two-year period a scheduled reduction of the balance of loans classified substandard and doubtful in its 2009 FDIC examination by at least 75%.

The Bank is required to reduce the volume of its adversely classified private label mortgage backed securities under a plan acceptable to the FDIC and OFR.

The Bank must submit to the FDIC and the OFR for their review and comment a written business/strategic plan covering the overall operation of the Bank.

The Bank must implement a plan to improve earnings, addressing goals and strategies for improving and sustaining earnings, major areas for improvement in the Bank s operating performance, realistic and comprehensive budgets and a budget review process.

(continued)

**OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY**

**Notes to Condensed Consolidated Financial Statements (unaudited), Continued**

**(9)** ***Regulatory Matters Bank, Continued.***

The Bank is required to revise, implement and incorporate recommendations of the FDIC and OFR with respect to the following policies or plans:

Lending and Collection Policies

Investment Policy

Liquidity, Contingency Funding and Funds Management Plan

Interest Rate Risk Management Policy

Internal Loan Review and Grading System and

Internal Control Policy.

The Bank s Board of Directors must review the adequacy of the allowance for loan and lease losses and establish a comprehensive policy satisfactory to the FDIC and OFR for determining such adequacy at least quarterly thereafter.

The Bank may not pay any dividends or bonuses without the prior approval of the FDIC.

The Bank may not accept, renew or rollover any brokered deposits except with the prior approval of the FDIC.

The Bank is required to notify the FDIC and OFR prior to undertaking asset growth of 10% or more per annum while the Consent Order remains in effect.

The Bank is required to file quarterly progress reports with the FDIC and the OFR.

The Bank has implemented comprehensive policies and plans to address all of the requirements of the Consent Order and has incorporated recommendations from the FDIC and OFR into these policies and plans. Management believes that the Bank is currently in substantial compliance with the requirements of the Consent Order except for the Bank s failure to attain the regulatory capital ratio requirements. The Company is conducting a private placement offering of its common stock intended to result in the Bank attaining such capital ratios. There can be no assurance, however, that the Company will raise sufficient capital, if any, in the private placement offering for the Bank to achieve material compliance with these ratios.

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**OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY**

**Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations**

*The following discussion should be read in conjunction with the condensed consolidated financial statements and notes thereto presented elsewhere in this report. For additional information, refer to the financial statements and footnotes for the year ended December 31, 2010 in the Annual Report on Form 10-K.*

**Recent Regulatory Enforcement Actions**

Bank Consent Order. On April 16, 2010, the Bank consented to the issuance of a Consent Order ( Consent Order ) by the FDIC and OFR. The Consent Order covers areas of the Bank s operations that warrant improvement and imposes various requirements and restrictions designed to address these areas, including the requirement to maintain certain minimum capital ratios. A detailed discussion of the Consent Order is contained in Footnote 9 to the condensed consolidated financial statements contained in this report. The Bank has implemented comprehensive policies and plans to address all of the requirements of the Consent Order and has incorporated recommendations from the FDIC and OFR into these policies and plans. Management believes that the Bank is currently in substantial compliance with the requirements of the Consent Order except for the Bank s failure to attain the regulatory capital ratio requirements. The Company is conducting a private placement offering of its common stock intended to result in the Bank attaining such capital ratios. There can be no assurance, however, that the Company will raise sufficient capital, if any, in the private placement offering for the Bank to achieve material compliance with these ratios.

Company Written Agreement with Reserve Bank. On June 22, 2010, the Company and the Reserve Bank entered into a Written Agreement with respect to certain aspects of the operation and management of the Company, including, without the prior approval of the Reserve Bank, paying or declaring dividends, taking dividends or payments from the Bank, making any interest, principal or other distributions on trust preferred securities, incurring, increasing or guaranteeing any debt, purchasing or redeeming any shares of stock, or appointing any new director or senior executive officer. A detailed discussion of the Written Agreement is contained in Footnote 8 to the condensed consolidated financial statements contained in this report.

**Capital Levels**

The FDIC has established minimum requirements for capital adequacy for state non-member banks. As of March 31, 2011, the Bank was considered undercapitalized under these FDIC requirements. As an undercapitalized institution, the Bank is subject to restrictions on capital distributions, payment of management fees, asset growth and the acceptance, renewal or rollover of brokered and high-rate deposits. In addition, the Bank must obtain prior approval of the FDIC prior to acquiring any interest in any company or insured depository institution, establishing or acquiring any additional branch office, or engaging in any new line of business. For more information on FDIC capital requirements, see the discussion under the subheadings Capital Adequacy Requirements in the section Supervision and Regulation included in Item 1 of the Company s 2010 10-K.

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**OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY**

**Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations, Continued**

The Bank does not meet the additional capital requirements required by the Consent Order. The Consent Order requires that no later than July 15, 2010, and during the life of the Consent Order, the Bank shall maintain: (a) a Tier 1 capital to total assets leverage ratio (Leverage ratio) at least equal to or greater than 8%; and (b) a ratio of qualifying total capital to risk-weighted assets (Total risk-based capital ratio) at least equal to or greater than 12%.

The following table summarizes the capital measures of the Bank at March 31, 2011 and December 31, 2010:

| | | | FDIC Guideline Requirements | | |
|---|---|---|---|---|---|
| (Dollars in thousands) | **March 31, 2011** | **December 31, 2010** | **Adequately-Capitalized** | **Well-Capitalized** | **Consent Order** |
| Tier I risk-based capital ratio | 4.97 | 5.43 | 4.00 | 6.00 | * |
| Total risk-based capital ratio | 6.23 | 6.70 | 8.00 | 10.00 | 12.00 |
| Leverage ratio | 3.54 | 4.02 | 4.00 | 5.00 | 8.00 |

* No additional requirement is established by the Consent Order

The Company is taking steps to raise additional capital, including a current private placement offering of its common stock that could result in a change of control of the Company and may be highly dilutive to existing shareholders. Management is uncertain as to whether the Company will be successful in raising sufficient capital in the private placement, if any, to meet the increased capital ratios required by the Consent Order or the FDIC s guidelines for prompt corrective action. If the Company is unable to raise sufficient capital and the Bank s regulatory capital levels continue to decline, it could have a material adverse impact on the Company s business, results of operations and financial condition, and ultimately could result in the closure of the Bank and the placement of the Bank into receivership with the FDIC.

**Financial Condition at March 31, 2011 and December 31, 2010**

**Overview**

Our total assets declined by $6.5 million to $183.8 million at March 31, 2011, from $190.3 million at December 31, 2010, due to a $7.5 million reduction in net loans as a result of loan payoffs and the transfer of $5 million in loans to foreclosed real estate, a $3.4 million reduction in cash and cash equivalents, offset in part by a $3 million increase in foreclosed real estate.

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**OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY**

**Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations, Continued**

The following table shows selected information for the periods ended or at the dates indicated:

| | Three Months Ended March 31, 2011 | Year Ended December 31, 2010 | Three Months Ended March 31, 2010 |
|---|---|---|---|
| Average equity as a percentage of average assets | 1.15% | 3.01% | 4.04% |
| Equity to total assets at end of period | 0.91% | 1.49% | 3.76% |
| Return on average assets (1) | (2.44)% | (3.84)% | (4.89)% |
| Return on average equity (1) | (212.49)% | (127.59)% | (120.96)% |
| Noninterest expenses to average assets (1) | 4.30% | 4.44% | 7.83% |

(1) Annualized for the three months ended March 31, 2011 and 2010.

We continue to experience the adverse effects of a severe downturn in the real estate market in which we operate, primarily south Florida, resulting in significant levels of defaults by borrowers compared to historical periods prior to 2009, significant levels of loans previously charged-off, reduced values of the real estate serving as collateral for our loans, and decreased values of foreclosed real estate. Management, however, is committed to minimizing further losses in the loan portfolio.

**Liquidity and Sources of Funds**

The Bank s sources of funds include customer deposits, advances from the FHLB, principal repayments of investment securities, loan repayments, foreclosed real estate sales, the use of Federal Funds markets, net income, if any, and loans taken out at the Federal Reserve discount window.

Deposits are our primary source of funds. Under the Consent Order, the interest rates that we pay on our market area deposits and our ability to accept brokered deposits is restricted. The restriction on brokered deposits is not expected to alter the Bank s current deposit gathering activities since the Bank has not accepted, renewed or rolled over any brokered deposits since December 2009. With respect to the yield limitations, it is possible that the Bank could experience a decrease in deposit inflows, or the migration of current deposits to competitor institutions, if other institutions offer higher interest rates than those permitted to be offered by the Bank. Despite these yield limitations, we believe that we have to the ability to adjust rates on our deposits to attract or retain deposits as needed.

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**OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY**

**Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations, Continued**

In addition to obtaining funds from depositors, we may borrow funds from other financial institutions. At March 31, 2011, the Bank had outstanding borrowings of $31.7 million, against its $31.7 million in established borrowing capacity with the FHLB. The Bank s borrowing facility is subject to collateral and stock ownership requirements, as well as prior FHLB consent to each advance. The use of such Federal Funds line is subject to certain conditions. In 2010, the Bank obtained an available discount window credit line with the Reserve Bank, currently $1,200,000. The Reserve Bank line is subject to collateral requirements, must be repaid within 90 days, and each advance is subject to prior Reserve Bank consent. We measure and monitor our liquidity daily and believe our liquidity sources are adequate to meet our operating needs.

The Company, on an unconsolidated basis, typically relies on dividends from the Bank to fund its operating expenses, primarily expenses of being publicly held, and to make interest payments on its outstanding trust preferred securities. Under the Consent Order, the Bank is currently unable to pay dividends without prior regulatory approval. In addition, under the Written Agreement, we may not pay interest payments on the trust preferred securities or dividends on our common stock, incur any additional indebtedness at the holding company level, or redeem our common stock without the prior regulatory approval of the Reserve Bank. Since January 2010, we have deferred interest payments on our trust preferred securities.

**Off-Balance Sheet Arrangements**

The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments are commitments to extend credit and may involve, to varying degrees, elements of credit and interest-rate risk in excess of the amounts recognized in the condensed consolidated balance sheet. The contract amounts of these instruments reflect the extent of the Company s involvement in these financial instruments.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total committed amounts do not necessarily represent future cash requirements. The Company evaluates each customer s creditworthiness on a case-by-case basis.

The amount of collateral obtained, if it is deemed necessary by the Company upon extension of credit, is based on management s credit evaluation of the counter party. As of March 31, 2011, the Company has no commitments to extend credit.

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**OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY**

**Results of Operations**

The following table sets forth, for the periods indicated, information regarding (i) the total dollar amount of interest and dividend income of the Company from interest-earning assets and the resultant average yields; (ii) the total dollar amount of interest expense on interest-bearing liabilities and the resultant average cost; (iii) net interest income; (iv) interest-rate spread; (v) net interest margin; and (vi) ratio of average interest-earning assets to average interest-bearing liabilities.

| | Three Months Ended March 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2011 | | | 2010 | | |
| | Average Balance | Interest And Dividends | Average Yield/ Rate | Average Balance | Interest and Dividends | Average Yield/ Rate |
| Interest-earning assets: | | | | | | |
| Loans | $ 111,905 | 1,289 | 4.61% | $ 142,096 | 1,901 | 5.35% |
| Securities | 52,505 | 529 | 4.03 | 68,223 | 930 | 5.45 |
| Other (1) | 16,854 | 15 | 0.36 | 30,290 | 14 | 0.18 |
| Total interest-earning assets/interest income | 181,264 | 1,833 | 4.04 | 240,609 | 2,845 | 4.73 |
| Cash and due from banks | 581 | | | 1,691 | | |
| Premises and equipment | 2,787 | | | 2,928 | | |
| Other | 5,347 | | | 9,027 | | |
| Total assets | $ 189,979 | | | $ 254,255 | | |
| Interest-bearing liabilities: | | | | | | |
| Savings, NOW and money-market deposits | 36,166 | 77 | 0.85 | 45,039 | 184 | 1.63 |
| Time deposits | 111,576 | 473 | 1.70 | 105,627 | 574 | 2.17 |
| Borrowings (2) | 36,855 | 380 | 4.12 | 89,597 | 884 | 3.95 |
| Total interest-bearing liabilities/interest expense | 184,597 | 930 | 2.02 | 240,263 | 1,642 | 2.73 |
| Noninterest-bearing demand deposits | 481 | | | 527 | | |
| Other liabilities | 2,723 | | | 3,194 | | |
| Stockholders equity | 2,178 | | | 10,271 | | |
| Total liabilities and stockholders equity | $ 189,979 | | | $ 254,255 | | |
| Net interest income | | $ 903 | | | $ 1,203 | |
| Interest rate spread (3) | | | 2.02% | | | 2.00% |
| Net interest margin (4) | | | 1.99% | | | 2.00% |

| | | |
|---|---|---|
| Ratio of average interest-earning assets to average interest-bearing liabilities | 0.98 | 1.00 |

(1) Includes interest-earning deposits with banks, Federal funds sold and Federal Home Loan Bank stock dividends.
(2) Includes Federal Home Loan Bank advances, other borrowings and junior subordinated debenture.
(3) Interest rate spread represents the difference between average yield on interest-earning assets and the average cost of interest-bearing liabilities.
(4) Net interest margin is net interest income divided by average interest-earning assets.

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**OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY**

**Comparison of the Three-Month Periods Ended March 31, 2011 and 2010**

***General***. Net loss for the three months ended March 31, 2011, was $1.2 million or $(1.41) per basic and diluted share compared to a net loss of $3.1 million or $(3.79) per basic and diluted share for the period ended March 31, 2010. This decrease in the Company s net loss was primarily due to a decrease in the $2.4 million net expense associated with downsizing the Company in the first quarter of 2010, a decrease in total interest expense of $0.7 million, and a reduction in the provision for loan loss of $0.7 million partially offset by a reduction in total interest income of $1.0 million and a $0.8 million increase in noninterest expenses, primarily foreclosed real estate expenses, insurance and professional fees associated with loan foreclosures, workouts, and regulatory matters.

***Interest Income***. Interest income decreased to $1.8 million for the three months ended March 31, 2011 from $2.8 million for the three months ended March 31, 2010. Interest income on loans decreased $0.6 million due primarily to a decrease in the average loan portfolio balance and a decrease in the average yield earned for the three months ended March 31, 2011 compared to the same period in 2010. Interest on securities decreased by $0.4 million to $0.5 million due primarily to a decrease in the average balance of the securities portfolio.

***Interest Expense.*** Interest expense on deposits decreased to $0.6 million for the three months ended March 31, 2011 from $0.8 million for the three months ended March 31, 2010. Interest expense decreased primarily because of a decrease in the average yield paid during 2011. Interest expense on borrowings decreased to $0.4 million for the three months ended March 31, 2011 from $0.9 million for the three months ended March 31, 2010 due primarily to a decrease in the average balance of borrowings.

***Provision for Loan Losses.*** The provision for the three months ended March 31, 2011, was $34,000 compared to $0.7 million for the same period in 2010. The provision for loan losses is charged to operations as losses are estimated to have occurred in order to bring the total allowance for loan losses to a level deemed appropriate by management to absorb losses inherent in the portfolio at March 31, 2011. Management s periodic evaluation of the adequacy of the allowance is based upon historical experience, the volume and type of lending conducted by us, adverse situations that may affect the borrower s ability to repay, estimated value of the underlying collateral, loans identified as impaired, general economic conditions, particularly as they relate to our market areas, and other factors related to the estimated collectability of our loan portfolio. The allowance for loan losses totaled $3.5 million or 3.2% of loans outstanding at March 31, 2011, compared to $3.7 million, or 3.2% of loans outstanding at December 31, 2010. The decrease in the allowance was due to the use of specific reserves for charge-offs of loans deemed uncollectible. Management believes the balance in the allowance for loan losses at March 31, 2011 is adequate.

***Noninterest Income.*** Total noninterest income decreased to $16,000 for the three months ended March 31, 2011, from $1.3 million for the three months ended March 31, 2010 primarily due to a decrease in gains recognized on the sale of securities as part of the downsizing of the Company in the first quarter of 2010.

***Noninterest Expenses***. Total noninterest expenses decreased to $2.0 million for the three months ended March 31, 2011 compared to $5.0 million for the three months ended March 31, 2010, primarily due to a decrease in the loss on the early extinguishment of debt associated with the Company s downsizing in 2010.

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**OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY**

**Item 4T. Controls and Procedures**

a. *Evaluation of Disclosure Controls and Procedures.* We maintain controls and procedures designed to ensure that information required to be disclosed in the reports that the Company files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission. Based upon management s evaluation of those controls and procedures performed within the 90 days preceding the filing of this Report, our Principal Executive and Financial Officer concluded that, as of March 31, 2011, the Company s disclosure controls and procedures (as defined in Rules 13a-15(e) under the Securities Exchange Act of 1934) were effective to ensure that the information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934 was recorded, processed, summarized and reported within the time periods specified in the U.S. Securities and Exchange Commission s rules and forms.

b. *Changes in Internal Controls.* We have made no significant changes in our internal controls over financial reporting during the quarter ended March 31, 2011, that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

**PART II. OTHER INFORMATION**

**Item 6. Exhibits**

The exhibits contained in the Exhibit Index following the signature page are filed with or incorporated by reference into this report.

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**OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY**

**PART II. OTHER INFORMATION**

**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.

| | |
|---|---|
| | **OPTIMUMBANK HOLDINGS, INC.**<br>(Registrant) |
| Date: May 12, 2011 | By: /s/ Richard L. Browdy<br>Richard L. Browdy<br>President and Chief Financial Officer<br>(Principal Executive Officer and Principal Financial Officer) |

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**OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY**

**EXHIBIT INDEX**

| Exhibit No. | Description |
|---|---|
| 3.1 | Articles of Incorporation (incorporated by reference from Current Report on Form 8-K filed with the Securities and Exchange Commission ( SEC ) on May 11, 2004 |
| 3.2 | Articles of Amendment to the Articles of Incorporation, effective as of January 7, 2009 (Incorporated by reference to Exhibit 3.2 to Annual Report on Form 10- K for the year ended December 31, 2008, filed with the SEC on March 31, 2009) |
| 3.3 | Articles of Amendment to the Articles of Incorporation, effective as of November 5, 2010 (Incorporated by reference to Exhibit 3.3 to the Current Report on Form 8-K, filed with the SEC on November 5, 2010) |
| 4.3 | Bylaws (incorporated by reference from Current Report on Form 8-K filed with the SEC on May 11, 2004 |
| 4.1 | Form of stock certificate (incorporated by reference from Quarterly Report on Form 10-QSB filed with the SEC on August 12, 2004) |
| 10.1 | Amended and Restated Stock Option Plan (incorporated by reference from Annual Report on Form 10-KSB filed with the SEC on March 31, 2006) |
| 10.2 | Stipulation to Entry of Consent Order and Consent Order between OptimumBank, Federal Deposit Insurance Corporation and State of Florida Office of Financial Regulation dated April 16, 2010 (incorporated by reference from current report on Form 8-K filed with the SEC on April 26, 2010) |
| 10.3 | Agreement between OptimumBank, Albert J. Finch and Richard L. Browdy dated June 14, 2002 (incorporated by reference from Registration Statement on Form 10-SB under the Exchange Act, filed with the Federal Deposit Insurance Corporation on March 28, 2003) |
| 10.4 | Written Agreement by and between OptimumBank Holdings, Inc. and Federal Reserve Bank of Atlanta dated June 22, 2010 (incorporated by reference from Quarterly Report on Form 10-Q filed with the SEC on November 15, 2010) |
| 14.1 | Code of Ethics for Chief Executive Officer and Senior Financial Officers (incorporated by reference from Annual Report on Form 10-K filed with the SEC on March 31, 2010) |
| 31.1 | Certification of Principal Executive and Principal Financial Officer required by Rule 13a-14(a)/15d-14(a) under the Exchange Act |
| 32.1 | Certification of Principal Executive and Principal Financial Officer under §906 of the Sarbanes-Oxley Act of 2002 |