BankUnited, Inc.
Form 10-Q
August 08, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2014
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to
Commission File Number: 001-35039
BankUnited, Inc.
(Exact name of registrant as specified in its charter)

Delaware	27-0162450
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
14817 Oak Lane, Miami Lakes, FL	33016
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (305) 569-2000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ý	Accelerated filer o
Non-accelerated filer o	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No ý

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	August 5, 2014
Common Stock, $0.01 Par Value	101,623,175

BankUnited, Inc.

Form 10-Q

For the Quarter Ended June 30, 2014

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PART I — FINANCIAL INFORMATION
Item 1. Financial Statements
BANKUNITED, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS - UNAUDITED
(In thousands, except share and per share data)

	June 30, 2014	December 31, 2013
ASSETS		
Cash and due from banks:		
Non-interest bearing	$36,362	$45,976
Interest bearing	18,708	14,590
Interest bearing deposits at Federal Reserve Bank	320,638	190,075
Federal funds sold	3,442	2,108
Cash and cash equivalents	379,150	252,749
Investment securities available for sale, at fair value (including covered securities of $205,769 at December 31, 2013)	4,091,547	3,637,124
Non-marketable equity securities	163,774	152,066
Loans held for sale	1,525	194
Loans (including covered loans of $1,168,012 and $1,483,888)	10,578,190	9,053,609
Allowance for loan and lease losses	(75,471)	(69,725)
Loans, net	10,502,719	8,983,884
FDIC indemnification asset	1,084,678	1,205,117
Bank owned life insurance	213,715	206,759
Equipment under operating lease	199,567	196,483
Other real estate owned (including covered OREO of $20,700 and $39,672)	21,015	40,570
Deferred tax asset, net	78,580	70,626
Goodwill and other intangible assets	68,737	69,067
Other assets	203,316	232,010
Total assets	$17,008,323	$15,046,649
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Liabilities:		
Demand deposits:		
Non-interest bearing	$2,312,104	$2,171,335
Interest bearing	750,985	676,079
Savings and money market	5,073,669	4,402,987
Time	3,899,973	3,282,027
Total deposits	12,036,731	10,532,428
Federal Home Loan Bank advances and other borrowings	2,698,788	2,414,313
Other liabilities	258,232	171,210
Total liabilities	14,993,751	13,117,951
Commitments and contingencies		
Stockholders' equity:		
Common stock, par value $0.01 per share, 400,000,000 shares authorized; 101,650,857 and 101,013,014 shares issued and outstanding	1,017	1,010
Paid-in capital	1,344,106	1,334,945

Retained earnings	595,161	535,263
Accumulated other comprehensive income	74,288	57,480
Total stockholders' equity	2,014,572	1,928,698
Total liabilities and stockholders' equity	$ 17,008,323	$ 15,046,649

The accompanying notes are an integral part of these consolidated financial statements.

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BANKUNITED, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME — UNAUDITED
(In thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Interest income:				
Loans	$164,184	$154,760	$327,967	$299,851
Investment securities available for sale	25,741	30,196	50,567	60,201
Other	1,808	1,142	3,761	2,421
Total interest income	191,733	186,098	382,295	362,473
Interest expense:				
Deposits	17,467	14,158	33,562	29,039
Borrowings	8,388	7,890	16,391	15,597
Total interest expense	25,855	22,048	49,953	44,636
Net interest income before provision for loan losses	165,878	164,050	332,342	317,837
Provision for (recovery of) loan losses (including $897, $(2,951), $1,693 and $1,849 for covered loans)	7,192	4,881	15,595	16,848
Net interest income after provision for loan losses	158,686	159,169	316,747	300,989
Non-interest income:				
Income from resolution of covered assets, net	12,170	20,580	25,231	39,770
Net loss on indemnification asset	(5,896)	(17,683)	(22,800)	(29,370)
FDIC reimbursement of costs of resolution of covered assets	1,112	2,261	2,240	5,125
Service charges and fees	4,186	3,379	8,191	6,721
Gain (loss) on sale of loans, net (including gain (loss) related to covered loans of $(366), $(4,311), $18,928, and $(5,082))	(9)	(4,115)	19,323	(4,701)
Gain on investment securities available for sale, net (including loss related to covered securities of $(963) for the three and six months ended June 30, 2013)	—	3,536	361	5,222
Other non-interest income	8,915	5,272	18,122	10,586
Total non-interest income	20,478	13,230	50,668	33,353
Non-interest expense:				
Employee compensation and benefits	49,556	43,027	99,005	86,102
Occupancy and equipment	17,496	15,381	34,463	30,423
Amortization of FDIC indemnification asset	15,194	7,150	30,935	9,430
(Gain) loss on other real estate owned, net (including (gain) loss related to covered OREO of $218, $(5,672), $(2,589) and $(5,423))	218	(5,672)	(2,459)	(5,423)
Foreclosure and other real estate owned expense	1,508	3,256	2,488	4,629
Deposit insurance expense	2,311	1,724	4,563	3,661
Professional fees	3,127	6,959	6,557	12,381
Telecommunications and data processing	3,266	3,484	6,573	6,852
Other non-interest expense	13,944	10,188	26,956	20,231
Total non-interest expense	106,620	85,497	209,081	168,286
Income before income taxes	72,544	86,902	158,334	166,056
Provision for income taxes	24,001	32,894	54,520	63,822

Net income	$48,543	$54,008	$103,814	$102,234
Earnings per common share, basic (see Note 2)	$0.46	$0.52	$0.99	$1.00
Earnings per common share, diluted (see Note 2)	$0.46	$0.52	$0.99	$0.99
Cash dividends declared per common share	$0.21	$0.21	$0.42	$0.42

The accompanying notes are an integral part of these consolidated financial statements.

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BANKUNITED, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME - UNAUDITED
(In thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net income	$48,543	$54,008	$103,814	$102,234
Other comprehensive income (loss), net of tax:				
Unrealized gains on investment securities available for sale:				
Net unrealized holding gain (loss) arising during the period	8,022	(40,858)	21,433	(34,393)
Reclassification adjustment for net securities gains realized in income	—	(2,172)	(222)	(3,208)
Net change in unrealized gains on securities available for sale	8,022	(43,030)	21,211	(37,601)
Unrealized losses on derivative instruments:				
Net unrealized holding gain (loss) arising during the period	(7,939)	11,567	(12,515)	9,949
Reclassification adjustment for net losses realized in income	4,089	3,163	8,112	5,740
Net change in unrealized losses on derivative instruments	(3,850)	14,730	(4,403)	15,689
Other comprehensive income (loss)	4,172	(28,300)	16,808	(21,912)
Comprehensive income	$52,715	$25,708	$120,622	$80,322

The accompanying notes are an integral part of these consolidated financial statements.

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BANKUNITED, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS - UNAUDITED
(In thousands)

	Six Months Ended June 30, 2014	2013
Cash flows from operating activities:		
Net income	$103,814	$102,234
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Amortization and accretion, net	(138,373)	(203,328)
Provision for loan losses	15,595	16,848
Income from resolution of covered assets, net	(25,231)	(39,770)
Net loss on indemnification asset	22,800	29,370
(Gain) loss on sale of loans, net	(19,323)	4,701
Increase in cash surrender value of bank owned life insurance	(1,659)	(1,569)
Gain on investment securities available for sale, net	(361)	(5,222)
Gain on other real estate owned, net	(2,459)	(5,423)
Equity based compensation	7,274	6,663
Depreciation and amortization	14,931	10,193
Deferred income taxes	(18,504)	12,158
Proceeds from sale of loans held for sale	10,296	17,927
Loans originated for sale, net of repayments	(11,407)	(16,956)
Realized tax benefits from dividend equivalents and equity based compensation	(980)	(334)
Other:		
(Increase) decrease in other assets	(13,434)	6,129
Increase in other liabilities	5,506	20,443
Net cash used in operating activities	(51,515)	(45,936)
Cash flows from investing activities:		
Purchase of investment securities available for sale	(636,547)	(634,827)
Proceeds from repayments of investment securities available for sale	159,147	360,834
Proceeds from sale of investment securities available for sale	119,824	241,830
Purchase of non-marketable equity securities	(32,850)	(19,212)
Proceeds from redemption of non-marketable equity securities	21,142	9,881
Purchases of loans	(379,340)	(575,162)
Loan originations, repayments and resolutions, net	(1,391,119)	(523,352)
Proceeds from sale of loans, net	490,462	53,182
Decrease in FDIC indemnification asset for claims filed	66,704	73,636
Purchase of bank owned life insurance	(7,700)	—
Bank owned life insurance proceeds	2,403	2,782
Purchase of premises and equipment, net	(12,693)	(12,084)
Acquisition of equipment under operating lease	(14,461)	(47,866)
Proceeds from sale of other real estate owned	37,325	73,045
Net cash used in investing activities	(1,577,703)	(997,313)

(Continued)

The accompanying notes are an integral part of these consolidated financial statements.

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BANKUNITED, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS - UNAUDITED (Continued)
(In thousands)

	Six Months Ended June 30, 2014	2013
Cash flows from financing activities:		
Net increase in deposits	1,504,310	492,879
Additions to Federal Home Loan Bank advances and other borrowings	1,915,162	1,890,000
Repayments of Federal Home Loan Bank advances and other borrowings	(1,640,794)	(1,616,531)
Dividends paid	(43,791)	(21,703)
Realized tax benefits from dividend equivalents and equity based compensation	980	334
Exercise of stock options	914	2,139
Other financing activities	18,838	14,330
Net cash provided by financing activities	1,755,619	761,448
Net increase (decrease) in cash and cash equivalents	126,401	(281,801)
Cash and cash equivalents, beginning of period	252,749	495,353
Cash and cash equivalents, end of period	$379,150	$213,552
Supplemental disclosure of cash flow information:		
Interest paid	$46,559	$43,579
Income taxes paid	$70,755	$56,680
Supplemental schedule of non-cash investing and financing activities:		
Transfers from loans to other real estate owned	$15,311	$41,641
Disbursement of loan proceeds from escrow	$52,500	$—
Dividends declared, not paid	$21,958	$21,726
Unsettled securities trades	$65,948	$—
Acquisition of assets under capital lease	$9,035	$—

The accompanying notes are an integral part of these consolidated financial statements.

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BANKUNITED, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY - UNAUDITED
(In thousands, except share data)

	Common Shares Outstanding	Common Stock	Preferred Shares Outstanding	Preferred Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity
Balance at December 31, 2013	101,013,014	$ 1,010	—	$—	$ 1,334,945	$535,263	$ 57,480	$ 1,928,698
Comprehensive income	—	—	—	—	—	103,814	16,808	120,622
Dividends	—	—	—	—	—	(43,916)	—	(43,916)
Equity based compensation	634,180	6	—	—	7,268	—	—	7,274
Forfeiture of unvested shares	(51,220)	—	—	—	—	—	—	—
Exercise of stock options	54,883	1	—	—	913	—	—	914
Tax benefits from dividend equivalents and equity based compensation	—	—	—	—	980	—	—	980
Balance at June 30, 2014	101,650,857	$ 1,017	—	$—	$ 1,344,106	$595,161	$ 74,288	$ 2,014,572
Balance at December 31, 2012	95,006,729	$ 950	5,415,794	$ 54	$ 1,308,315	$413,385	$ 83,976	$ 1,806,680
Comprehensive income	—	—	—	—	—	102,234	(21,912)	80,322
Conversion of preferred shares to common shares	5,415,794	54	(5,415,794)	(54)	—	—		—
Dividends	—	—	—	—	—	(43,429)	—	(43,429)
Equity based compensation	28,763	—	—	—	6,663	—	—	6,663
Forfeiture of unvested shares	(24,610)	—	—	—	—	—	—	—
Exercise of stock options	123,721	2	—	—	2,137	—	—	2,139
Tax benefits from dividend equivalents and equity based compensation	—	—	—	—	334	—	—	334
Balance at June 30, 2013	100,550,397	$ 1,006	—	$—	$ 1,317,449	$472,190	$ 62,064	$ 1,852,709

The accompanying notes are an integral part of these consolidated financial statements.

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BANKUNITED, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED
June 30, 2014

Note 1 Basis of Presentation and Summary of Significant Accounting Policies

BankUnited, Inc. ("BankUnited, Inc." or "BKU"), is a national bank holding company with one wholly-owned subsidiary, BankUnited, National Association ("BankUnited" or the "Bank"), collectively, the Company. BankUnited, a national banking association headquartered in Miami Lakes, Florida, provides a full range of banking and related services to individual and corporate customers through 99 branches located in 15 Florida counties and 6 banking centers located in the New York metropolitan area at June 30, 2014.

On May 21, 2009, BankUnited acquired substantially all of the assets and assumed all of the non-brokered deposits and substantially all of the other liabilities of BankUnited, FSB from the Federal Deposit Insurance Corporation ("FDIC") in a transaction referred to as the "FSB Acquisition." Neither the Company nor the Bank had any substantive operations prior to May 21, 2009. In connection with the FSB Acquisition, BankUnited entered into two loss sharing agreements with the FDIC (the "Loss Sharing Agreements"). The Loss Sharing Agreements consist of a single family shared-loss agreement (the "Single Family Shared-Loss Agreement"), and a commercial and other loans shared-loss agreement, (the "Commercial Shared-Loss Agreement"). The Single Family Shared-Loss Agreement provides for FDIC loss sharing and the Bank’s reimbursement for recoveries to the FDIC through May 21, 2019 for single family residential loans and other real estate owned ("OREO"). Loss sharing under the Commercial Shared-Loss Agreement terminated on May 21, 2014. The Commercial Shared-Loss Agreement continues to provide for the Bank’s reimbursement of recoveries to the FDIC through May 21, 2017 for all other covered assets, including commercial real estate, commercial and industrial and consumer loans, certain investment securities and commercial OREO. Gains realized on the sale of formerly covered investment securities are included in recoveries subject to reimbursement. The assets covered under the Loss Sharing Agreements are collectively referred to as the “covered assets.” Pursuant to the terms of the Loss Sharing Agreements, the covered assets are subject to a stated loss threshold whereby the FDIC will reimburse BankUnited for 80% of losses related to the covered assets up to $4.0 billion and 95% of losses in excess of this amount, beginning with the first dollar of loss incurred.

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X of the Securities and Exchange Commission (the "SEC"). Accordingly, they do not include all of the information and footnotes required for a fair presentation of financial position, results of operations and cash flows in conformity with U.S. generally accepted accounting principles ("GAAP") and should be read in conjunction with the Company’s consolidated financial statements and the notes thereto appearing in BKU’s Annual Report on Form 10-K for the year ended December 31, 2013 filed with the SEC. In the opinion of management, all adjustments, consisting of normal recurring adjustments, considered necessary for a fair presentation have been included. Operating results for the three and six months ended June 30, 2014 are not necessarily indicative of the results that may be expected in future periods.

Certain amounts presented for prior periods have been reclassified to conform to the current period presentation.

Accounting Estimates

In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses and disclosures of contingent assets and liabilities. Actual results could differ significantly from these estimates.

Significant estimates include the allowance for loan and lease losses, the amount and timing of expected cash flows from covered assets and the FDIC indemnification asset, the fair values of investment securities and other financial instruments and the valuation of OREO. Management has used information provided by third party valuation specialists to assist in the determination of the fair values of investment securities and OREO.

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BANKUNITED, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED
June 30, 2014

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update 2014-09, Revenue from Contracts with Customers (Topic 606), which will supersede the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific revenue recognition guidance throughout the Accounting Standards Codification. The amendments in this update affect any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of non-financial assets unless those contracts, including leases and insurance contracts, are within the scope of other standards. The amendments establish a core principle requiring the recognition of revenue to depict the transfer of promised goods or services to customers in an amount reflecting the consideration to which the entity expects to be entitled in exchange for such goods or services. The amendments also require expanded disclosures concerning the nature, amount, timing and uncertainty of revenues and cash flows arising from contracts with customers. For public entities, the amendments in this update are effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period, and must be applied retrospectively. Early application is not permitted. Management is currently evaluating the impact of adoption.

In April 2014, the FASB issued Accounting Standards Update 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. The amendments in this update change the definition of a discontinued operation and, thus, limit the circumstances under which a disposal may be reported as a discontinued operation. Under the amendments, a disposal of a component of an entity or a group of components of an entity is required to be reported in discontinued operations if the disposal represents a strategic shift that has, or will have, a major effect on an entity’s operations and financial results. The amendments in this update were adopted by the Company in April 2014 and had no material impact on the presentation of the Company’s consolidated balance sheets, statements of income or statements of cash flows.

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BANKUNITED, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED
June 30, 2014

Note 2 Earnings Per Common Share

The computation of basic and diluted earnings per common share is presented below for the periods indicated (in thousands, except share and per share data):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Basic earnings per common share:				
Numerator:				
Net income	$48,543	$54,008	$103,814	$102,234
Distributed and undistributed earnings allocated to participating securities	(1,934)	(2,124)	(4,086)	(5,258)
Income allocated to common stockholders for basic earnings per common share	$46,609	$51,884	$99,728	$96,976
Denominator:				
Weighted average common shares outstanding	101,651,265	100,484,614	101,489,190	98,315,096
Less average unvested stock awards	(1,205,669)	(1,104,635)	(1,092,262)	(1,135,499)
Weighted average shares for basic earnings per common share	100,445,596	99,379,979	100,396,928	97,179,597
Basic earnings per common share	$0.46	$0.52	$0.99	$1.00
Diluted earnings per common share:				
Numerator:				
Income allocated to common stockholders for basic earnings per common share	$46,609	$51,884	$99,728	$96,976
Adjustment for earnings reallocated from participating securities	4	2	9	1,225
Income used in calculating diluted earnings per common share	$46,613	$51,886	$99,737	$98,201
Denominator:				
Average shares for basic earnings per common share	100,445,596	99,379,979	100,396,928	97,179,597
Dilutive effect of stock options and preferred shares	141,664	189,403	143,066	2,342,584
Weighted average shares for diluted earnings per common share	100,587,260	99,569,382	100,539,994	99,522,181
Diluted earnings per common share	$0.46	$0.52	$0.99	$0.99

The following potentially dilutive securities were outstanding at June 30, 2014 and 2013 but excluded from the calculation of diluted earnings per common share for the periods indicated because their inclusion would have been anti-dilutive:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Unvested shares	1,228,067	1,152,651	1,228,067	1,152,651
Stock options and warrants	6,386,424	6,733,410	6,386,424	6,733,410

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BANKUNITED, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED
June 30, 2014

Note 3 Investment Securities Available for Sale

Investment securities available for sale consisted of the following at the dates indicated (in thousands):

	June 30, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities	$104,825	$186	$—	$105,011
U.S. Government agency and sponsored enterprise residential mortgage-backed securities	1,466,591	40,542	(6,995)	1,500,138
U.S. Government agency and sponsored enterprise commercial mortgage-backed securities	80,079	150	—	80,229
Resecuritized real estate mortgage investment conduits (“Re-Remics”)	226,247	4,713	(19)	230,941
Private label residential mortgage-backed securities and collateralized mortgage obligations ("CMOs")	222,542	56,041	(1,082)	277,501
Private label commercial mortgage-backed securities	1,031,280	14,665	(3,664)	1,042,281
Single family rental real estate-backed securities	146,000	58	—	146,058
Collateralized loan obligations	50,000	—	—	50,000
Non-mortgage asset-backed securities	158,963	6,707	(23)	165,647
Mutual funds and preferred stocks	110,917	20,082	(35)	130,964
State and municipal obligations	15,460	146	(54)	15,552
Small Business Administration securities	328,550	10,709	(44)	339,215
Other debt securities	3,638	4,372	—	8,010
	$3,945,092	$158,371	$(11,916)	$4,091,547

	December 31, 2013							
	Covered Securities				Non-Covered Securities			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government agency and sponsored enterprise residential mortgage-backed securities	$—	$—	$—	$—	$1,548,671	$34,191	$(8,559)	$1,574,303
U.S. Government agency and sponsored enterprise commercial mortgage-backed securities	—	—	—	—	27,132	—	(355)	26,777
Re-Remics	—	—	—	—	267,525	4,261	(1)	271,785
Private label residential mortgage-backed securities	119,434	56,539	(110)	175,863	135,750	329	(1,824)	134,255

and CMOs								
Private label commercial mortgage-backed securities	—	—	—	—	814,114	7,638	(12,980)	808,772
Non-mortgage asset-backed securities	—	—	—	—	172,329	6,676	(11)	178,994
Mutual funds and preferred stocks	15,419	6,726	—	22,145	125,387	4,015	(1,870)	127,532
Small Business Administration securities	—	—	—	—	295,892	13,045	—	308,937
Other debt securities	3,542	4,219	—	7,761	—	—	—	—
	$138,395	$67,484	$(110)	$205,769	$3,386,800	$70,155	$(25,600)	$3,431,355

As discussed in Note 1, FDIC loss sharing on covered investment securities ended on May 21, 2014. Investment securities formerly covered under the Commercial Shared-Loss Agreement had an aggregate fair value of $204 million, amortized cost of $130 million and gross unrealized gains of $73 million as of June 30, 2014.

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BANKUNITED, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED
June 30, 2014

At June 30, 2014, contractual maturities of investment securities available for sale, adjusted for anticipated prepayments of mortgage-backed and other pass-through securities, were as follows (in thousands):

	Amortized Cost	Fair Value
Due in one year or less	$453,015	$504,186
Due after one year through five years	2,295,366	2,326,472
Due after five years through ten years	924,482	951,438
Due after ten years	161,312	178,487
Mutual funds and preferred stocks with no stated maturity	110,917	130,964
	$3,945,092	$4,091,547

Based on the Company’s proprietary assumptions, the estimated weighted average life of the investment portfolio as of June 30, 2014 was 3.8 years. The effective duration of the investment portfolio as of June 30, 2014 was 1.9 years. The model results are based on assumptions that may differ from actual results.

The carrying value of securities pledged as collateral for Federal Home Loan Bank (“FHLB”) advances, public deposits, interest rate swaps, securities sold under agreements to repurchase and to secure borrowing capacity at the Federal Reserve Bank ("FRB") totaled $0.9 billion at June 30, 2014 and December 31, 2013.

The following table provides information about gains and losses on investment securities available for sale for the periods indicated (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Proceeds from sale of investment securities available for sale	$—	$122,515	$119,824	$241,830
Gross realized gains	$—	$4,501	$1,280	$6,190
Gross realized losses	—	(2)	(919)	(5)
Net realized gain	—	4,499	361	6,185
Other-than-temporary impairment (“OTTI”)	—	(963)	—	(963)
Gain on investment securities available for sale, net	$—	$3,536	$361	$5,222

During the three months ended June 30, 2013, OTTI was recognized on an intermediate term mortgage mutual fund investment which had been in a continuous unrealized loss position for 34 months. Due primarily to the length of time the investment had been in a continuous unrealized loss position and an increasing measure of impairment, the Company determined the impairment to be other than temporary. This security was covered under the Loss Sharing Agreements, therefore, the impact of the impairment was significantly mitigated by an increase of $770 thousand in the FDIC indemnification asset, reflected in the consolidated statement of income line item “Net loss on indemnification asset”.

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The following tables present the aggregate fair value and the aggregate amount by which amortized cost exceeded fair value for investment securities in unrealized loss positions, aggregated by investment category and length of time that individual securities had been in continuous unrealized loss positions, at the dates indicated (in thousands):

	June 30, 2014					
	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government agency and sponsored enterprise residential mortgage-backed securities	$48,304	$(2,993)	$273,584	$(4,002)	$321,888	$(6,995)
Re-Remics	2,822	(19)	—	—	2,822	(19)
Private label residential mortgage-backed securities and CMOs	19,670	(49)	29,218	(1,033)	48,888	(1,082)
Private label commercial mortgage-backed securities	35,941	(99)	240,219	(3,565)	276,160	(3,664)
Non-mortgage asset-backed securities	29,483	(23)	—	—	29,483	(23)
Mutual funds and preferred stocks	20,215	(35)	—	—	20,215	(35)
State and municipal obligations	6,903	(54)	—	—	6,903	(54)
Small Business Administration securities	30,645	(44)	—	—	30,645	(44)
	$193,983	$(3,316)	$543,021	$(8,600)	$737,004	$(11,916)

	December 31, 2013					
	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government agency and sponsored enterprise residential mortgage-backed securities	$414,361	$(8,559)	$—	$—	$414,361	$(8,559)
U.S. Government agency and sponsored enterprise commercial mortgage-backed securities	26,777	(355)	—	—	26,777	(355)
Re-Remics	11,037	(1)	—	—	11,037	(1)
Private label residential mortgage-backed securities and CMOs	79,048	(1,696)	10,303	(238)	89,351	(1,934)
Private label commercial mortgage-backed securities	511,778	(12,980)	—	—	511,778	(12,980)
Non-mortgage asset-backed securities	1,516	(11)	—	—	1,516	(11)
Mutual funds and preferred stocks	67,513	(1,870)	—	—	67,513	(1,870)
	$1,112,030	$(25,472)	$10,303	$(238)	$1,122,333	$(25,710)

The Company monitors its investment securities available for sale for OTTI on an individual security basis. No securities were determined to be other-than-temporarily impaired during the six months ended June 30, 2014. As discussed above, one security was determined to be other-than-temporarily impaired during the three months ended June 30, 2013. The Company does not intend to sell securities that are in significant unrealized loss positions and it is not more likely than not that the Company will be required to sell these securities before recovery of the amortized cost basis, which may be at maturity. At June 30, 2014, 39 securities were in unrealized loss positions. Unrealized losses on investment securities available for sale at June 30, 2014 were primarily attributable to an increase in medium and long-term market interest rates subsequent to the date the securities were acquired. The amount of impairment related to 13 of these securities was considered insignificant, totaling

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approximately $124 thousand and no further analysis with respect to these securities was considered necessary. The basis for concluding that impairment of the remaining securities was not other-than-temporary is further described below:

U.S. Government agency and sponsored enterprise residential mortgage-backed securities:

At June 30, 2014, eight U.S. Government agency and sponsored enterprise residential mortgage-backed securities were in unrealized loss positions. These securities evidenced unrealized losses ranging from less than 1% to 8% of amortized cost. The timely payment of principal and interest on these securities is explicitly or implicitly guaranteed by the U.S. Government. Given the limited severity of impairment and the expectation of timely payment of principal and interest, the impairments were considered to be temporary.

Private label residential mortgage-backed securities and CMOs:

At June 30, 2014, six private label residential mortgage-backed securities were in unrealized loss positions. These securities were assessed for OTTI using third-party developed credit and prepayment behavioral models and CUSIP level constant default rates, voluntary prepayment rates and loss severity and delinquency assumptions. The results of these assessments were not indicative of credit losses related to any of these securities as of June 30, 2014. These securities evidenced unrealized losses ranging from less than 1% to 8% of amortized cost. One of these securities had been in an unrealized loss position for 36 months and had an unrealized loss of $80 thousand. The market for this security is thin and the market price is adversely affected by lack of liquidity. This bond is considered an odd lot which can be detrimental to potential bids for the security. Given the limited severity of impairment and the expectation of timely recovery of outstanding principal, the impairments were considered to be temporary.

Private label commercial mortgage-backed securities:

At June 30, 2014, nine private label commercial mortgage-backed securities were in unrealized loss positions. The amount of impairment of each of the individual securities was 2% or less of amortized cost. These securities were assessed for OTTI using third-party developed models, incorporating assumptions consistent with the collateral characteristics of each security. The results of this analysis were not indicative of expected credit losses. Given the limited severity of impairment and the expectation of timely recovery of outstanding principal, the impairments were considered to be temporary.

Preferred stocks:

At June 30, 2014, six investments in one financial institution preferred stock were in unrealized loss positions. These investments had been in unrealized loss positions for less than three months and the amount of impairment was less than 1% of amortized cost. Given the limited duration and severity of impairment and results of the Company’s analysis of the financial condition of the issuer, the impairments were considered to be temporary.

State and municipal obligations:

At June 30, 2014, one municipal security was in an unrealized loss position. This security had been in an unrealized loss position for less than three months and the amount of impairment was less than 1% of amortized cost. Given the limited duration and severity of impairment, the impairment was considered to be temporary.

Small Business Administration securities:

At June 30, 2014, one Small Business Administration security was in an unrealized loss position. This security had been in an unrealized loss position for less than three months and the amount of impairment was less than 1% of amortized cost. The timely payment of principal and interest on this security is guaranteed by this U.S. Government agency. Given the limited severity and duration of impairment and the expectation of timely payment of principal and interest, the impairment was considered to be temporary.

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Note 4 Loans and Allowance for Loan and Lease Losses

A significant portion of the Company's loan portfolio consists of loans acquired in the FSB Acquisition. Residential loans acquired in the FSB Acquisition are covered under the Single Family Shared-Loss Agreement (the "covered loans"). Loans originated or purchased since the FSB Acquisition ("new loans") are not covered by the Loss Sharing Agreements and, effective May 21, 2014, commercial and consumer loans acquired in the FSB Acquisition are no longer covered by the Loss Sharing Agreements. Loans acquired in the FSB Acquisition may be further segregated between those acquired with evidence of deterioration in credit quality since origination ("Acquired Credit Impaired" or "ACI" loans) and those acquired without evidence of deterioration in credit quality since origination ("non-ACI" loans).

Loans consisted of the following at the dates indicated (dollars in thousands):

	June 30, 2014					
	Non-Covered Loans		Covered Loans			Percent of
	New Loans	ACI	ACI	Non-ACI	Total	Total
Residential:						
1-4 single family residential	$2,095,666	$—	$963,904	$64,931	$3,124,501	29.6 %
Home equity loans and lines of credit	1,526	—	33,521	117,387	152,434	1.5 %
	2,097,192	—	997,425	182,318	3,276,935	31.1 %
Commercial:						
Multi-family	1,436,944	25,525	—	—	1,462,469	13.9 %
Commercial real estate						
Owner occupied	880,228	37,125	—	—	917,353	8.7 %
Non-owner occupied	1,357,811	37,312	—	—	1,395,123	13.2 %
Construction and land	184,834	224	—	—	185,058	1.7 %
Commercial and industrial	2,894,774	1,267	—	—	2,896,041	27.5 %
Lease financing	392,684	—	—	—	392,684	3.7 %
	7,147,275	101,453	—	—	7,248,728	68.7 %
Consumer	21,760	140	—	—	21,900	0.2 %
Total loans	9,266,227	101,593	997,425	182,318	10,547,563	100.0 %
Premiums, discounts and deferred fees and costs, net	42,358	—	—	(11,731)	30,627	
Loans net of premiums, discounts and deferred fees and costs	9,308,585	101,593	997,425	170,587	10,578,190	
Allowance for loan and lease losses	(68,184)	—	—	(7,287)	(75,471)	
Loans, net	$9,240,401	$101,593	$997,425	$163,300	$10,502,719	

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	December 31, 2013					
	Non-Covered Loans		Covered Loans			Percent of
	New Loans	ACI	ACI	Non-ACI	Total	Total
Residential:						
1-4 single family residential	$1,800,332	$—	$1,057,012	$70,378	$2,927,722	32.4 %
Home equity loans and lines of credit	1,535	—	39,602	127,807	168,944	1.9 %
	1,801,867	—	1,096,614	198,185	3,096,666	34.3 %
Commercial:						
Multi-family	1,097,872	8,093	33,354	—	1,139,319	12.6 %
Commercial real estate						
Owner occupied	712,844	5,318	49,861	689	768,712	8.5 %
Non-owner occupied	946,543	1,449	93,089	52	1,041,133	11.5 %
Construction and land	138,091	—	10,600	729	149,420	1.7 %
Commercial and industrial	2,266,407	—	6,050	6,234	2,278,691	25.3 %
Lease financing	337,382	—	—	—	337,382	3.7 %
	5,499,139	14,860	192,954	7,704	5,714,657	63.3 %
Consumer	213,107	—	1,679	—	214,786	2.4 %
Total loans	7,514,113	14,860	1,291,247	205,889	9,026,109	100.0 %
Premiums, discounts and deferred fees and costs, net	40,748	—	—	(13,248)	27,500	
Loans net of premiums, discounts and deferred fees and costs	7,554,861	14,860	1,291,247	192,641	9,053,609	
Allowance for loan and lease losses	(57,330)	—	(2,893)	(9,502)	(69,725)	
Loans, net	$7,497,531	$14,860	$1,288,354	$183,139	$8,983,884	

At June 30, 2014 and December 31, 2013, the unpaid principal balance (“UPB”) of ACI loans was $2.9 billion and $3.3 billion, respectively.

During the three and six months ended June 30, 2014 and 2013, the Company purchased 1-4 single family residential loans totaling $200 million, $379 million, $348 million, and $575 million, respectively.

At June 30, 2014, the Company had pledged real estate loans with UPB of approximately $6.6 billion and recorded investment of approximately $5.1 billion as security for FHLB advances.

The accretable yield on ACI loans represents the amount by which undiscounted expected future cash flows exceed recorded investment. Changes in the accretable yield on ACI loans for the six months ended June 30, 2014 and the year ended December 31, 2013 were as follows (in thousands):

Balance, December 31, 2012	$1,286,066
Reclassifications from non-accretable difference	282,952
Accretion	(410,446)
Balance, December 31, 2013	1,158,572
Reclassifications from non-accretable difference	103,523

Accretion	(175,860)
Balance, June 30, 2014	$1,086,235

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Accretable yield at June 30, 2014 included expected cash flows from a pool of 1-4 single family residential loans whose carrying value had been reduced to zero. The UPB of loans remaining in this pool was $27 million at June 30, 2014.

Loan sales

During the three months ended June 30, 2014, the Company made the decision to terminate its indirect auto lending activities and sell the existing portfolio of indirect auto loans. The Company sold indirect auto loans with a recorded investment of $302.8 million. and received cash proceeds, net of transaction costs, of $303.0 million. The Company recognized a gain on the sale totaling $0.2 million, which was recoded in "Gain (loss) on sale of loans, net" in the accompanying statements of income for the three and six months ended June 30, 2014. The total impact of this transaction on pre-tax earnings was a net increase of $1.8 million, inclusive of the gain on sale, exit costs and elimination of the related allowance for loan losses.

During the periods indicated, the Company sold covered 1-4 single family residential loans to third parties on a non-recourse basis. The following table summarizes the impact of these transactions (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
UPB of loans sold	$64,081	$69,980	$134,269	$102,238
Cash proceeds, net of transaction costs	$40,550	$36,451	$86,447	$53,182
Recorded investment in loans sold	33,835	25,238	69,922	32,502
Net pre-tax impact on earnings, excluding gain on indemnification asset	$6,715	$11,213	$16,525	$20,680
Gain (loss) on sale of covered loans	$(366)	$(4,311)	$957	$(5,082)
Proceeds recorded in interest income	7,081	15,524	15,568	25,762
	$6,715	$11,213	$16,525	$20,680
Gain on indemnification asset	$1,565	$4,952	$1,245	$6,168

For the three and six months ended June 30, 2014 and 2013, covered 1-4 single family residential loans with UPB of $13 million, $29 million, $30 million, and $50 million, respectively, were sold from a pool of ACI loans with a zero carrying value. Proceeds of the sale of loans from this pool, representing realization of accretable yield, were recorded in interest income. The gain or loss on the sale of loans from the remaining pools, representing the difference between the recorded investment and consideration received, was recorded in “Gain (loss) on sale of loans, net” in the accompanying consolidated statements of income.

During the six months ended June 30, 2014, in accordance with the terms of the Commercial Shared-Loss Agreement, the Bank requested and received approval from the FDIC to sell certain covered commercial and consumer loans. These loans were transferred to loans held for sale at the lower of carrying value or fair value, determined at the individual loan level, upon receipt of FDIC approval and sold in March 2014. The reduction of carrying value to fair value for specific loans was recognized in the provision for loan losses.

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The following table summarizes the pre-tax impact of these sales, as reflected in the consolidated statements of income for the six months ended June 30, 2014 (in thousands):

Cash proceeds, net of transaction costs	$101,023
Carrying value of loans transferred to loans held for sale	86,521
Provision for loan losses recorded upon transfer to loans held for sale	(3,469)
Recorded investment in loans sold	83,052
Gain on sale of covered loans	$17,971
Loss on indemnification asset	$(2,085)

Allowance for loan and lease losses

Activity in the allowance for loan and lease losses ("ALLL") is summarized as follows for the periods indicated (in thousands):

	Three Months Ended							
	June 30, 2014				June 30, 2013			
	Residential	Commercial	Consumer	Total	Residential	Commercial	Consumer	Total
Beginning balance	$13,929	$52,991	$3,108	$70,028	$19,612	$40,874	$537	$61,023
Provision for (recovery of) loan losses:								
ACI loans	—	14	—	14	—	(195)	—	(195)
Non-ACI loans	999	(116)	—	883	(1,108)	(1,648)	—	(2,756)
New loans	265	8,301	(2,271)	6,295	341	7,177	314	7,832
Total provision	1,264	8,199	(2,271)	7,192	(767)	5,334	314	4,881
Charge-offs:								
ACI loans	—	(14)	—	(14)	—	(291)	—	(291)
Non-ACI loans	(911)	—	—	(911)	(734)	(67)	—	(801)
New loans	—	(631)	(547)	(1,178)	—	(7,976)	(61)	(8,037)
Total charge-offs	(911)	(645)	(547)	(2,103)	(734)	(8,334)	(61)	(9,129)
Recoveries:								
Non-ACI loans	3	—	—	3	4	1,542	—	1,546
New loans	—	150	201	351	—	98	12	110
Total recoveries	3	150	201	354	4	1,640	12	1,656
Ending balance	$14,285	$60,695	$491	$75,471	$18,115	$39,514	$802	$58,431

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	Six Months Ended June 30, 2014				June 30, 2013			
	Residential	Commercial	Consumer	Total	Residential	Commercial	Consumer	Total
Beginning balance	$15,353	$52,185	$2,187	$69,725	$19,164	$39,543	$414	$59,121
Provision for (recovery of) loan losses:								
ACI loans	—	1,988	324	2,312	—	(1,598)	—	(1,598)
Non-ACI loans	(651)	32	—	(619)	6,056	(2,609)	—	3,447
New loans	715	14,334	(1,147)	13,902	(5,386)	19,948	437	14,999
Total provision	64	16,354	(823)	15,595	670	15,741	437	16,848
Charge-offs:								
ACI loans	—	(4,881)	(324)	(5,205)	—	(2,117)	—	(2,117)
Non-ACI loans	(1,144)	(490)	—	(1,634)	(1,734)	(172)	—	(1,906)
New loans	—	(2,817)	(910)	(3,727)	—	(16,170)	(81)	(16,251)
Total charge-offs	(1,144)	(8,188)	(1,234)	(10,566)	(1,734)	(18,459)	(81)	(20,274)
Recoveries:								
Non-ACI loans	12	26	—	38	15	2,478	—	2,493
New loans	—	318	361	679	—	211	32	243
Total recoveries	12	344	361	717	15	2,689	32	2,736
Ending balance	$14,285	$60,695	$491	$75,471	$18,115	$39,514	$802	$58,431

The impact of provisions for (recoveries of) losses on covered loans is significantly mitigated by increases (decreases) in the FDIC indemnification asset, recorded in the consolidated statement of income line item “Net loss on indemnification asset.”

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The following table presents information about the balance of the ALLL and related loans at the dates indicated (in thousands):

	June 30, 2014				December 31, 2013			
	Residential	Commercial	Consumer	Total	Residential	Commercial	Consumer	Total
Allowance for loan and lease losses:								
Ending balance	$14,285	$60,695	$491	$75,471	$15,353	$52,185	$2,187	$69,725
Ending balance: non-ACI and new loans individually evaluated for impairment	$915	$6,529	$—	$7,444	$855	$9,467	$—	$10,322
Ending balance: non-ACI and new loans collectively evaluated for impairment	$13,370	$54,166	$491	$68,027	$14,498	$39,825	$2,187	$56,510
Ending balance: ACI	$—	$—	$—	$—	$—	$2,893	$—	$2,893
Ending balance: non-ACI	$7,287	$—	$—	$7,287	$9,070	$432	$—	$9,502
Ending balance: new loans	$6,998	$60,695	$491	$68,184	$6,283	$48,860	$2,187	$57,330
Loans:								0
Ending balance	$3,298,172	$7,258,082	$21,936	$10,578,190	$3,111,167	$5,720,722	$221,720	$9,053,609
Ending balance: non-ACI and new loans individually evaluated for impairment	$6,550	$17,744	$—	$24,294	$5,663	$22,584	$—	$28,247
Ending balance: non-ACI and new loans collectively evaluated for impairment	$2,294,197	$7,138,885	$21,796	$9,454,878	$2,008,890	$5,490,324	$220,041	$7,719,255
Ending balance: ACI loans	$997,425	$101,453	$140	$1,099,018	$1,096,614	$207,814	$1,679	$1,306,107

Credit quality information

New commercial relationships on non-accrual status with internal risk ratings of substandard or doubtful and with committed balances greater than or equal to $750,000 as well as loans that have been modified in troubled debt restructurings (“TDRs”) are individually evaluated for impairment. ACI loans or loan pools are considered to be impaired when there has been further deterioration in the cash flows expected at acquisition plus any additional cash flows expected to be collected arising from changes in estimates after acquisition, other than due to decreases in interest rate indices and changes in prepayment assumptions. Discount continues to be accreted on ACI loans or pools as long as there are expected future cash flows in excess of the current carrying amount; therefore, these loans are not classified as non-accrual even though they may be contractually delinquent. ACI 1-4 single family residential and home equity loans accounted for in pools are evaluated for impairment on a pool basis and the amount of any impairment is measured based on the expected aggregate cash flows of the pools. ACI commercial and commercial real estate loans are evaluated individually for impairment.

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The tables below present information about loans or pools identified as impaired at the dates indicated (in thousands):

	June 30, 2014			December 31, 2013		
	Recorded Investment	UPB	Related Specific Allowance	Recorded Investment	UPB	Related Specific Allowance
New loans:						
With no specific allowance recorded:						
Commercial real estate						
Owner occupied	$3,789	$3,766	$—	$1,751	$1,754	$—
Non-owner occupied	1,385	1,385	—	1,444	1,444	—
With a specific allowance recorded:						
Commercial and industrial	11,391	11,397	5,924	16,048	16,055	8,696
Lease financing	1,179	1,179	605	1,345	1,345	771
Total:						
Residential	$—	$—	$—	$—	$—	$—
Commercial	17,744	17,727	6,529	20,588	20,598	9,467
	$17,744	$17,727	$6,529	$20,588	$20,598	$9,467
Non-ACI loans:						
With no specific allowance recorded:						
1-4 single family residential	$263	$310	$—	$168	$198	$—
Home equity loans and lines of credit	1,669	1,697	—	1,703	1,734	—
Commercial and industrial	—	—	—	1,996	1,999	—
With a specific allowance recorded:						
1-4 single family residential	3,421	4,030	794	3,564	4,203	827
Home equity loans and lines of credit	1,197	1,217	121	228	232	28
Total:						
Residential	$6,550	$7,254	$915	$5,663	$6,367	$855
Commercial	—	—	—	1,996	1,999	—
	$6,550	$7,254	$915	$7,659	$8,366	$855
ACI loans:						
With no specific allowance recorded:						
Commercial real estate						
Non-owner occupied	$—	$—	$—	$384	$406	$—
Construction and land	—	—	—	567	588	—
With a specific allowance recorded:						
Multi-family	—	—	—	3,478	3,459	323
Commercial real estate						
Owner occupied	—	—	—	2,643	2,812	369
Non-owner occupied	—	—	—	32,436	37,392	1,444
Construction and land	—	—	—	1,686	1,500	192
Commercial and industrial	—	—	—	3,932	4,262	565
Total:						
Commercial	$—	$—	$—	$45,126	$50,419	$2,893

$—	$—	$—	$45,126	$50,419	$2,893

Interest income recognized on impaired loans after impairment was not significant for any of the periods presented.

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The following tables present the average recorded investment in impaired loans for the periods indicated (in thousands):

	Three Months Ended June 30,					
	2014			2013		
	New Loans	Non-ACI Loans	ACI Loans	New Loans	Non-ACI Loans	ACI Loans
Residential:						
1-4 single family residential	$—	$3,695	$—	$—	$3,930	$—
Home equity loans and lines of credit	—	2,515	—	—	1,616	—
	—	6,210	—	—	5,546	—
Commercial:						
Multi-family	—	—	—	—	—	5,401
Commercial real estate						
Owner occupied	3,485	—	—	—	—	4,260
Non-owner occupied	1,400	—	—	1,524	—	23,596
Construction and land	—	—	—	—	—	4,378
Commercial and industrial	12,222	—	—	18,361	2,312	6,225
Lease financing	1,179	—	—	1,511	—	—
	18,286	—	—	21,396	2,312	43,860
	$18,286	$6,210	$—	$21,396	$7,858	$43,860

	Six Months Ended June 30,					
	2014			2013		
	New Loans	Non-ACI Loans	ACI Loans	New Loans	Non-ACI Loans	ACI Loans
Residential:						
1-4 single family residential	$—	$3,707	$—	$—	$3,937	$—
Home equity loans and lines of credit	—	2,320	—	—	1,275	—
	—	6,027	—	—	5,212	—
Commercial:						
Multi-family	—	—	1,159	1,216	—	5,809
Commercial real estate						
Owner occupied	2,907	—	881	—	—	3,865
Non-owner occupied	1,414	—	10,940	1,537	20	22,639
Construction and land	—	—	751	—	—	4,714
Commercial and industrial	13,497	665	1,311	16,985	2,710	6,739
Lease financing	1,234	—	—	1,566	—	—
	19,052	665	15,042	21,304	2,730	43,766
	$19,052	$6,692	$15,042	$21,304	$7,942	$43,766

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The following table presents the recorded investment in new and non-ACI loans on non-accrual status at the dates indicated (in thousands):

	June 30, 2014		December 31, 2013	
	New Loans	Non-ACI Loans	New Loans	Non-ACI Loans
Residential:				
1-4 single family residential	$84	$1,359	$194	$293
Home equity loans and lines of credit	—	5,199	—	6,559
	84	6,558	194	6,852
Commercial:				
Commercial real estate				
Owner occupied	4,188	—	2,785	—
Non-owner occupied	1,385	—	1,444	52
Construction and land	226	—	244	—
Commercial and industrial	12,169	—	16,612	2,765
Lease financing	1,194	—	1,370	—
	19,162	—	22,455	2,817
Consumer	51	—	75	—
	$19,297	$6,558	$22,724	$9,669

As of December 31, 2013, discount is no longer being accreted on ACI commercial real estate loans with a carrying value of $1 million.

There were no new and non-ACI loans contractually delinquent by 90 days or more and still accruing at June 30, 2014. New and non-ACI loans contractually delinquent by 90 days or more and still accruing totaled $0.5 million at December 31, 2013. The amount of additional interest income that would have been recognized on non-accrual loans had they performed in accordance with their contractual terms is not material.

Management considers delinquency status to be the most meaningful indicator of the credit quality of 1-4 single family residential, home equity and consumer loans. Delinquency statistics are updated at least monthly. See "Aging of loans" below for more information on the delinquency status of loans. Original loan to value ratio (“LTV”) and original FICO score are also important indicators of credit quality for the new 1-4 single family residential portfolio.

Internal risk ratings are considered the most meaningful indicator of credit quality for commercial loans. Internal risk ratings are a key factor in identifying loans that are individually evaluated for impairment and impact management’s estimates of loss factors used in determining the amount of the ALLL. Internal risk ratings are updated on a continuous basis. Relationships with balances in excess of $1 million are re-evaluated at least annually and more frequently if circumstances indicate that a change in risk rating may be warranted. Loans exhibiting potential credit weaknesses that deserve management’s close attention and that if left uncorrected may result in deterioration of the repayment capacity of the borrower are categorized as special mention. Loans with well-defined credit weaknesses, including payment defaults, declining collateral values, frequent overdrafts, operating losses, increasing balance sheet leverage, inadequate cash flow, project cost overruns, unreasonable construction delays, past due real estate taxes or exhausted interest reserves, are assigned an internal risk rating of substandard. A loan with a weakness so severe that collection in full is highly questionable or improbable will be assigned an internal risk rating of doubtful.

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The following tables summarize key indicators of credit quality for the Company's loans at the dates indicated. Amounts are net of premiums, discounts and deferred fees and costs (in thousands):

1-4 Single Family Residential credit exposure for new loans, based on original LTV and FICO score:

	June 30, 2014				
	FICO				
LTV	720 or less	721 - 740	741 - 760	761 or greater	Total
60% or less	$54,513	$74,090	$103,855	$523,969	$756,427
60% - 70%	39,897	53,441	85,796	346,295	525,429
70% - 80%	26,819	76,569	144,490	554,141	802,019
More than 80%	26,617	4,589	3,122	10,431	44,759
	$147,846	$208,689	$337,263	$1,434,836	$2,128,634

	December 31, 2013				
	FICO				
LTV	720 or less	721 - 740	741 - 760	761 or greater	Total
60% or less	$37,293	$60,626	$86,920	$473,250	$658,089
60% - 70%	25,861	45,485	77,253	308,242	456,841
70% - 80%	19,610	60,021	116,332	472,279	668,242
More than 80%	26,492	5,487	3,166	9,463	44,608
	$109,256	$171,619	$283,671	$1,263,234	$1,827,780

Commercial credit exposure, based on internal risk rating:

	June 30, 2014						
		Commercial Real Estate					
	Multi-Family	Owner Occupied	Non-Owner Occupied	Construction and Land	Commercial and Industrial	Lease Financing	Total
New loans:							
Pass	$1,438,271	$871,545	$1,355,423	$ 139,144	$2,867,598	$396,686	$7,068,667
Special mention	—	2,183	—	—	9,579	—	11,762
Substandard	411	7,307	1,385	45,173	15,594	589	70,459
Doubtful	—	—	—	—	5,136	605	5,741
	$1,438,682	$881,035	$1,356,808	$ 184,317	$2,897,907	$397,880	$7,156,629
ACI loans:							
Pass	$23,290	$37,125	$36,070	$ 224	$1,150	$—	$97,859
Substandard	2,235	—	1,147	—	116	—	3,498
Doubtful	—	—	95	—	1	—	96
	$25,525	$37,125	$37,312	$ 224	$1,267	$—	$101,453

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	December 31, 2013						
		Commercial Real Estate					
	Multi-Family	Owner Occupied	Non-Owner Occupied	Construction and Land	Commercial and Industrial	Lease Financing	Total
New loans:							
Pass	$1,098,383	$704,403	$946,208	$ 137,513	$2,236,331	$338,992	$5,461,830
Special mention	—	—	—	—	7,892	—	7,892
Substandard	770	7,080	1,444	244	15,906	599	26,043
Doubtful	—	51	—	—	8,918	771	9,740
	$1,099,153	$711,534	$947,652	$ 137,757	$2,269,047	$340,362	$5,505,505
Non-ACI loans:							
Pass	$—	$687	$—	$ 688	$3,177	$—	$4,552
Substandard	—	—	52	—	2,379	—	2,431
Doubtful	—	—	—	—	420	—	420
	$—	$687	$52	$ 688	$5,976	$—	$7,403
ACI loans:							
Pass	$31,002	$40,725	$53,238	$ 7,373	$1,824	$—	$134,162
Special mention	—	1,000	3,361	—	—	—	4,361
Substandard	10,445	13,454	37,845	3,227	4,206	—	69,177
Doubtful	—	—	94	—	20	—	114
	$41,447	$55,179	$94,538	$ 10,600	$6,050	$—	$207,814

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Aging of loans:

The following table presents an aging of loans at the dates indicated. Amounts are net of premiums, discounts and deferred fees and costs (in thousands):

	June 30, 2014					December 31, 2013				
	Current	30 - 59 Days Past Due	60 - 89 Days Past Due	90 Days or More Past Due or in Foreclosure	Total	Current	30 - 59 Days Past Due	60 - 89 Days Past Due	90 Days or More Past Due or in Foreclosure	Total
New loans:										
1-4 single family residential	$2,118,851	$9,699	$—	$84	$2,128,634	$1,824,084	$2,990	$109	$597	$1,827,780
Home equity loans and lines of credit	1,526	—	—	—	1,526	1,535	—	—	—	1,535
Multi-family	1,437,482	—	1,200	—	1,438,682	1,099,153	—	—	—	1,099,153
Commercial real estate										
Owner occupied	880,362	673	—	—	881,035	710,938	—	—	596	711,534
Non-owner occupied	1,356,808	—	—	—	1,356,808	947,652	—	—	—	947,652
Construction and land	184,317	—	—	—	184,317	137,757	—	—	—	137,757
Commercial and industrial	2,893,024	755	37	4,091	2,897,907	2,260,628	610	165	7,644	2,269,047
Lease financing	397,866	—	14	—	397,880	340,337	—	25	—	340,362
Consumer	21,528	81	157	30	21,796	219,083	766	161	31	220,041
	$9,291,764	$11,208	$1,408	$4,205	$9,308,585	$7,541,167	$4,366	$460	$8,868	$7,554,861
Non-ACI loans:										
1-4 single family residential	$52,673	$1,088	$1,136	$223	$55,120	$56,248	$3,129	$293	$—	$59,670
Home equity loans and lines of credit	107,386	1,977	905	5,199	115,467	116,036	2,417	556	6,559	125,568

Commercial real estate										
Owner occupied	—	—	—	—	—	687	—	—	—	687
Non-owner occupied	—	—	—	—	—	52	—	—	—	52
Construction and land	—	—	—	—	—	688	—	—	—	688
Commercial and industrial	—	—	—	—	—	3,722	—	4	2,250	5,976
	$160,059	$3,065	$2,041	$5,422	$170,587	$177,433	$5,546	$853	$8,809	$192,641
ACI loans:										
1-4 single family residential	$900,800	$27,388	$6,408	$29,308	$963,904	$957,791	$33,067	$10,279	$55,875	$1,057,012
Home equity loans and lines of credit	29,952	564	163	2,842	33,521	33,967	1,150	329	4,156	39,602
Multi-family	25,525	—	—	—	25,525	38,877	—	—	2,570	41,447
Commercial real estate										
Owner occupied	37,124	—	1	—	37,125	54,501	253	—	425	55,179
Non-owner occupied	36,880	—	1	431	37,312	81,754	3,245	—	9,539	94,538
Construction and land	224	—	—	—	224	7,373	—	—	3,227	10,600
Commercial and industrial	1,266	—	—	1	1,267	3,193	—	—	2,857	6,050
Consumer	140	—	—	—	140	1,477	—	201	1	1,679
	$1,031,911	$27,952	$6,573	$32,582	$1,099,018	$1,178,933	$37,715	$10,809	$78,650	$1,306,107

1-4 single family residential and home equity ACI loans that are contractually delinquent by more than 90 days and accounted for in pools that are on accrual status because discount continues to be accreted totaled $32 million and $60 million at June 30, 2014 and December 31, 2013, respectively. The recorded investment in commercial and commercial real estate ACI loans that are contractually delinquent in excess of ninety days but still classified as accruing loans due to discount accretion totaled $432 thousand and $18 million at June 30, 2014 and December 31, 2013, respectively.

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Troubled debt restructurings:

The following tables summarize loans that were modified in TDRs during the periods indicated, as well as loans modified during the twelve months preceding June 30, 2014 and 2013, that experienced payment defaults during the periods indicated (dollars in thousands):

	Three Months Ended June 30,							
	2014				2013			
	Loans Modified in TDRs During the Period		TDRs Experiencing Payment Defaults During the Period		Loans Modified in TDRs During the Period		TDRs Experiencing Payment Defaults During the Period	
	Number of TDRs	Recorded Investment	Number of TDRs	Recorded Investment	Number of TDRs	Recorded Investment	Number of TDRs	Recorded Investment
Non-ACI loans:								
Home equity loans and lines of credit	4	$714	2	$ 439	2	$299	—	$ —
	4	$714	2	$ 439	2	$299	—	$ —
ACI loans:								
Commercial real estate	—	$—	—	$ —	—	$—	1	$ 135
	—	$—	—	$ —	—	$—	1	$ 135

	Six Months Ended June 30,							
	2014				2013			
	Loans Modified in TDRs During the Period		TDRs Experiencing Payment Defaults During the Period		Loans Modified in TDRs During the Period		TDRs Experiencing Payment Defaults During the Period	
	Number of TDRs	Recorded Investment	Number of TDRs	Recorded Investment	Number of TDRs	Recorded Investment	Number of TDRs	Recorded Investment
New loans:								
Commercial real estate	1	$322	—	$ —	—	$—	—	$ —
Commercial and industrial	—	—	—	—	1	513	—	—
	1	$322	—	$ —	1	$513	—	$ —
Non-ACI loans:								
1-4 single family residential	—	$—	—	$ —	2	$333	1	$ 166
Home equity loans and lines of credit	5	956	2	439	3	1,148	—	—
	5	$956	2	$ 439	5	$1,481	1	$ 166
ACI loans:								
Commercial real estate	—	$—	—	$ —	3	$1,271	1	$ 135
Commercial and industrial	—	—	—	—	1	168	—	—

—	$—	—	$ —	4	$1,439	1	$ 135

Modifications during the three and six month periods ended June 30, 2014 and 2013 included restructuring of the amount and timing of required periodic payments, extensions of maturity and residential modifications under the U.S. Treasury Department’s Home Affordable Modification Program (“HAMP”). Included in TDRs are residential loans to borrowers who have not reaffirmed their debt discharged in Chapter 7 bankruptcy. The total amount of such loans is not material. Modified ACI loans accounted for in pools are not considered TDRs, are not separated from the pools and are not classified as impaired loans. Because of the immateriality of the amount of loans modified in TDRs and nature of the modifications, the modifications did not have a material impact on the Company’s consolidated financial statements or on the determination of the amount of the ALLL at June 30, 2014 and 2013.

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Note 5 FDIC Indemnification Asset

When the Company recognizes gains or losses related to covered assets in its consolidated financial statements, changes in the estimated amount recoverable from the FDIC under the Loss Sharing Agreements with respect to those gains or losses are also reflected in the consolidated financial statements. Covered loans may be resolved through prepayment, short sale of the underlying collateral, foreclosure, sale of the loans or charge-off. For loans resolved through prepayment, short sale or foreclosure, the difference between consideration received in satisfaction of the loans and the carrying value of the loans is recognized in the statement of income line item “Income from resolution of covered assets, net.” Losses from the resolution of covered loans increase the amount recoverable from the FDIC under the Loss Sharing Agreements. Gains from the resolution of covered loans reduce the amount recoverable from the FDIC under the Loss Sharing Agreements. Similarly, differences in proceeds received on the sale of OREO and covered loans and their carrying amounts result in gains or losses and reduce or increase the amount recoverable from the FDIC under the Loss Sharing Agreements. Increases in valuation allowances or impairment charges related to covered assets also increase the amount estimated to be recoverable from the FDIC. These additions to or reductions in amounts recoverable from the FDIC related to the resolution of covered assets are recorded in the consolidated statement of income line item “Net loss on indemnification asset” and reflected as corresponding increases or decreases in the FDIC indemnification asset.

The following tables summarize the components of the gains and losses associated with covered assets, along with the related additions to or reductions in the amounts recoverable from the FDIC under the Loss Sharing Agreements, as reflected in the consolidated statements of income for the periods indicated (in thousands):

	Three Months Ended June 30, 2014			Three Months Ended June 30, 2013		
	Transaction Income (Loss)	Net Gain (Loss) on Indemnification Asset	Net Impact on Pre-tax Earnings	Transaction Income (Loss)	Net Gain (Loss) on Indemnification Asset	Net Impact on Pre-tax Earnings
Recovery of (provision for) losses on covered loans	$(897)	$ 1,031	$134	$2,951	$ (2,349)	$602
Income from resolution of covered assets, net	12,170	(8,907)	3,263	20,580	(16,714)	3,866
Loss on sale of covered loans	(366)	1,565	1,199	(4,311)	4,952	641
OTTI on covered investment securities available for sale	—	—	—	(963)	770	(193)
Gain (loss) on covered OREO	(218)	415	197	5,672	(4,342)	1,330
	$10,689	$ (5,896)	$4,793	$23,929	$ (17,683)	$6,246

	Six Months Ended June 30, 2014			Six Months Ended June 30, 2013		
	Transaction Income (Loss)	Net Gain (Loss) on Indemnification Asset	Net Impact on Pre-tax Earnings	Transaction Income (Loss)	Net Gain (Loss) on Indemnification Asset	Net Impact on Pre-tax Earnings
Provision for losses on covered loans	$(1,693)	$ 1,624	$(69)	$(1,849)	$ 1,394	$(455)

Income from resolution of covered assets, net	25,231	(19,397)	5,834	39,770	(33,558)	6,212
Gain (loss) on sale of covered loans	18,928	(3,284)	15,644	(5,082)	6,168	1,086
OTTI on covered investment securities available for sale	—	—	—	(963)	770	(193)
Gain on covered OREO	2,589	(1,743)	846	5,423	(4,144)	1,279
	$45,055	$ (22,800)	$22,255	$37,299	$ (29,370)	$7,929

For a number of reasons, the gain or loss on indemnification asset does not bear the relationship to net gain or loss on sale of covered loans that might generally be expected based on the Loss Sharing Agreements. These reasons include, but are

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not limited to, the fact that the amount of indemnification from sales of covered loans is generally based on the unpaid principal balance of the loans rather than carrying value and prior charge offs taken on loans sold for which loss share claims were previously submitted.

Changes in the FDIC indemnification asset for the six months ended June 30, 2014 and for the year ended December 31, 2013, were as follows (in thousands):

Balance at December 31, 2012	$1,457,570
Amortization	(36,943)
Reduction for claims filed	(164,872)
Net loss on indemnification asset	(50,638)
Balance at December 31, 2013	1,205,117
Amortization	(30,935)
Reduction for claims filed	(66,704)
Net loss on indemnification asset	(22,800)
Balance at June 30, 2014	$1,084,678

Note 6 Income Taxes

The Company’s effective income tax rate of 33.1% and 34.4% for the three and six months ended June 30, 2014 differed from the statutory federal income tax rate primarily due to the impact of tax-exempt income, reductions in liabilities for uncertain state tax positions and state tax law changes enacted in the first quarter of 2014, offset in part by the impact of state income taxes. For the three and six months ended June 30, 2013 the effective income tax rate of 37.9% and 38.4%, respectively, differed from the statutory federal income tax rate primarily due to the impact of state income taxes.

Note 7 Derivatives and Hedging Activities

The Company uses interest rate swaps to manage interest rate risk related to variable rate FHLB advances and certificates of deposit with maturities of one year, which expose the Company to variability in cash flows due to changes in interest rates. The Company enters into LIBOR-based interest rate swaps that are designated as cash flow hedges with the objective of limiting the variability of interest payment cash flows resulting from changes in the benchmark interest rate LIBOR. The effective portion of changes in the fair value of interest rate swaps designated as cash flow hedging instruments is reported in accumulated other comprehensive income (“AOCI”) and subsequently reclassified into interest expense in the same period in which the related interest on the floating-rate debt obligations affects earnings.

The Company also enters into interest rate derivative contracts with certain of its commercial borrowers to enable those borrowers to manage their exposure to interest rate fluctuations. To mitigate interest rate risk associated with these derivative contracts, the Company enters into offsetting derivative contract positions with primary dealers. These interest rate derivative contracts are not designated as hedging instruments; therefore, changes in the fair value of these derivatives are recognized immediately in earnings. The impact on earnings related to changes in fair value of these derivatives for the six months ended June 30, 2014 and 2013 was not material.

The Company may be exposed to credit risk in the event of non-performance by the counterparties to its interest rate derivative agreements. The Company assesses the credit risk of its financial institution counterparties by monitoring publicly available credit rating and financial information. The Company manages dealer credit risk by entering into interest rate derivatives only with primary and highly rated counterparties, the use of ISDA master agreements and counterparty limits. The agreements contain bilateral collateral arrangements with the amount of collateral to be posted generally governed by the settlement value of outstanding swaps. The Company manages the risk of default by its borrower counterparties through its normal loan underwriting and credit monitoring policies and procedures. The Company does not currently anticipate any losses from failure of interest rate derivative counterparties to honor their obligations.

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The following tables set forth certain information concerning the Company's interest rate contract derivative financial instruments and related hedged items at the dates indicated (dollars in thousands):

June 30, 2014			
	Weighted Average Pay Rate	Weighted Average Receive Rate	Weighted Average Remaining Life in Years