

BankUnited, Inc.
Form 10-Q
August 05, 2016

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

FORM 10-Q

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

For the quarterly period ended June 30, 2016

OR

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 (I.R.S. Employer
of incorporation or organization) 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 No

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 No

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 Accelerated filer
Non-accelerated filer Smaller reporting company

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

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

Class	August 3, 2016
Common Stock, \$0.01 Par Value	104,149,469

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GLOSSARY OF DEFINED TERMS

The following acronyms and terms may be used throughout this Form 10-Q, including the consolidated financial statements and related notes.

ACI	Loans acquired with evidence of deterioration in credit quality since origination (Acquired Credit Impaired)
ALCO	Asset/Liability Committee
ALLL	Allowance for loan and lease losses
AOCI	Accumulated other comprehensive income
ARM	Adjustable rate mortgage
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
BKU	BankUnited, Inc.
BankUnited	BankUnited, National Association
The Bank	BankUnited, National Association
Bridge	Bridge Funding Group, Inc.
CET1	Common Equity Tier 1 risk-based capital
CECL	Current expected credit losses
CMOs	Collateralized mortgage obligations
Commercial Shared-Loss Agreement	A commercial and other loans shared-loss agreement entered into with the FDIC in connection with the FSB Acquisition
Covered assets	Assets covered under the Loss Sharing Agreements
Covered loans	Loans covered under the Loss Sharing Agreements
EVE	Economic value of equity
FASB	Financial Accounting Standards Board
FDIA	Federal Deposit Insurance Act
FDIC	Federal Deposit Insurance Corporation
FHLB	Federal Home Loan Bank
FRB	Federal Reserve Bank
FSB Acquisition	Acquisition of substantially all of the assets and assumption of all of the non-brokered deposits and substantially all of the other liabilities of BankUnited, FSB from the FDIC on May 21, 2009
GAAP	U.S. generally accepted accounting principles
GDP	Gross Domestic Product
HAMP	Home Affordable Modification Program
IPO	Initial public offering
ISDA	International Swaps and Derivatives Association
LIBOR	London InterBank Offered Rate
Loss Sharing Agreements	Two loss sharing agreements entered into with the FDIC in connection with the FSB Acquisition
LTV	Loan-to-value
MBS	Mortgage-backed securities
MSA	Metropolitan Statistical Area
MSRs	Mortgage servicing rights
New Loans	Loans originated or purchased since the FSB Acquisition
Non-ACI	Loans acquired without evidence of deterioration in credit quality since origination
OCC	Office of the Comptroller of the Currency
OREO	Other real estate owned

OTTI	Other-than-temporary impairment
PSU	Performance Unit
Pinnacle	Pinnacle Public Finance, Inc.
Re-Remics	Resecuritized real estate mortgage investment conduits
RSU	Restricted Share Unit
SBA	Small Business Administration
SBF	Small Business Finance Unit
SEC	Securities and Exchange Commission
Single Family Shared-Loss Agreement	A single-family loan shared-loss agreement entered into with the FDIC in connection with the FSB Acquisition
TDR	Troubled-debt restructuring
UCBL	United Capital Business Lending, Inc.
UPB	Unpaid principal balance
VIEs	Variable interest entities
2010 Plan	2010 Omnibus Equity Incentive Plan
2014 Plan	2014 Omnibus Equity Incentive Plan

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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, 2016	December 31, 2015
ASSETS		
Cash and due from banks:		
Non-interest bearing	\$35,866	\$31,515
Interest bearing	98,336	39,613
Interest bearing deposits at Federal Reserve Bank	221,946	192,366
Federal funds sold	3,526	4,006
Cash and cash equivalents	359,674	267,500
Investment securities available for sale, at fair value	5,685,432	4,859,539
Investment securities held to maturity	10,000	10,000
Non-marketable equity securities	271,734	219,997
Loans held for sale	32,582	47,410
Loans (including covered loans of \$716,593 and \$809,540)	18,219,602	16,636,603
Allowance for loan and lease losses	(135,718)	(125,828)
Loans, net	18,083,884	16,510,775
FDIC indemnification asset	633,744	739,880
Bank owned life insurance	235,596	225,867
Equipment under operating lease, net	478,937	483,518
Deferred tax asset, net	72,046	105,577
Goodwill and other intangible assets	78,185	78,330
Other assets	367,378	335,074
Total assets	\$26,309,192	\$23,883,467
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Demand deposits:		
Non-interest bearing	\$2,986,794	\$2,874,533
Interest bearing	1,429,028	1,167,537
Savings and money market	8,319,729	8,288,340
Time	5,496,502	4,608,091
Total deposits	18,232,053	16,938,501
Federal Home Loan Bank advances	4,943,903	4,008,464
Notes and other borrowings	402,762	402,545
Other liabilities	399,328	290,059
Total liabilities	23,978,046	21,639,569
Commitments and contingencies		
Stockholders' equity:		
Common stock, par value \$0.01 per share, 400,000,000 shares authorized; 104,166,800 and 103,626,255 shares issued and outstanding	1,042	1,036
Paid-in capital	1,415,758	1,406,786
Retained earnings	880,531	813,894

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Accumulated other comprehensive income	33,815	22,182
Total stockholders' equity	2,331,146	2,243,898
Total liabilities and stockholders' equity	\$26,309,192	\$23,883,467

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,	
	2016	2015	2016	2015
Interest income:				
Loans	\$220,630	\$184,010	\$435,206	\$355,389
Investment securities	36,710	26,284	70,251	54,504
Other	3,124	2,340	5,814	4,623
Total interest income	260,464	212,634	511,271	414,516
Interest expense:				
Deposits	28,833	21,855	55,459	41,859
Borrowings	17,321	9,801	34,661	18,951
Total interest expense	46,154	31,656	90,120	60,810
Net interest income before provision for loan losses	214,310	180,978	421,151	353,706
Provision for (recovery of) loan losses (including \$57, \$45, \$(674) and \$(406) for covered loans)	14,333	8,421	18,041	16,568
Net interest income after provision for loan losses	199,977	172,557	403,110	337,138
Non-interest income:				
Income from resolution of covered assets, net	9,545	13,743	17,543	28,897
Net loss on FDIC indemnification	(4,114)	(16,771)	(10,403)	(37,036)
Service charges and fees	4,796	4,492	9,358	8,943
Gain (loss) on sale of loans, net (including gain (loss) related to covered loans of \$(4,151), \$7,417, \$(4,863) and \$17,423)	(903)	8,223	587	18,389
Gain on investment securities available for sale, net	3,858	1,128	7,057	3,150
Lease financing	10,974	7,044	21,574	13,281
Other non-interest income	4,701	3,199	6,339	6,175
Total non-interest income	28,857	21,058	52,055	41,799
Non-interest expense:				
Employee compensation and benefits	55,752	51,845	111,212	101,324
Occupancy and equipment	18,784	18,934	37,775	37,104
Amortization of FDIC indemnification asset	38,060	26,460	77,754	48,465
Deposit insurance expense	4,231	3,163	7,923	6,081
Professional fees	3,604	2,680	6,235	5,978
Telecommunications and data processing	3,721	3,345	7,054	6,816
Depreciation of equipment under operating lease	6,647	4,073	13,149	7,511
Other non-interest expense	13,313	12,948	25,118	24,313
Total non-interest expense	144,112	123,448	286,220	237,592
Income before income taxes	84,722	70,167	168,945	141,345
Provision for income taxes	27,997	23,530	57,346	48,251
Net income	\$56,725	\$46,637	\$111,599	\$93,094
Earnings per common share, basic (see Note 2)	\$0.53	\$0.44	\$1.04	\$0.88
Earnings per common share, diluted (see Note 2)	\$0.52	\$0.43	\$1.03	\$0.87
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,	
	2016	2015	2016	2015
Net income	\$56,725	\$46,637	\$111,599	\$93,094
Other comprehensive income, net of tax:				
Unrealized gains on investment securities available for sale:				
Net unrealized holding gain (loss) arising during the period	42,555	(11,142)	50,274	1,845
Reclassification adjustment for net securities gains realized in income	(2,334)	(683)	(4,270)	(1,906)
Net change in unrealized gains on securities available for sale	40,221	(11,825)	46,004	(61)
Unrealized losses on derivative instruments:				
Net unrealized holding gain (loss) arising during the period	(14,638)	9,640	(40,003)	(3,067)
Reclassification adjustment for net losses realized in income	2,604	3,891	5,632	7,910
Net change in unrealized losses on derivative instruments	(12,034)	13,531	(34,371)	4,843
Other comprehensive income	28,187	1,706	11,633	4,782
Comprehensive income	\$84,912	\$48,343	\$123,232	\$97,876

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,	
	2016	2015
Cash flows from operating activities:		
Net income	\$ 111,599	\$ 93,094
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization and accretion, net	(61,404)	(83,758)
Provision for loan losses	18,041	16,568
Income from resolution of covered assets, net	(17,543)	(28,897)
Net loss on FDIC indemnification	10,403	37,036
Gain on sale of loans, net	(587)	(18,389)
Increase in cash surrender value of bank owned life insurance	(2,029)	(1,877)
Gain on investment securities available for sale, net	(7,057)	(3,150)
Equity based compensation	8,688	7,224
Depreciation and amortization	26,013	19,477
Deferred income taxes	25,936	33,124
Proceeds from sale of loans held for sale	89,537	73,358
Loans originated for sale, net of repayments	(71,168)	(51,364)
Realized tax benefits from dividend equivalents and equity based compensation	(552)	(208)
Other:		
Increase in other assets	(15,617)	(19,423)
Increase in other liabilities	29,171	3,433
Net cash provided by operating activities	143,431	76,248
Cash flows from investing activities:		
Net cash paid in business combination	—	(277,553)
Purchase of investment securities	(1,529,380)	(1,071,655)
Proceeds from repayments and calls of investment securities available for sale	283,318	284,891
Proceeds from sale of investment securities available for sale	494,185	474,914
Purchase of non-marketable equity securities	(122,500)	(68,359)
Proceeds from redemption of non-marketable equity securities	70,763	56,963
Purchases of loans	(581,982)	(435,433)
Loan originations, repayments and resolutions, net	(945,908)	(1,227,595)
Proceeds from sale of loans, net	83,490	98,611
Decrease in FDIC indemnification asset for claims filed	18,028	29,079
Purchase of premises and equipment, net	(4,413)	(16,025)
Acquisition of equipment under operating lease, net	(8,568)	(111,136)
Proceeds from sale of OREO and repossessed assets	10,554	9,764
Other investing activities	(22,026)	(11,481)
Net cash used in investing activities	(2,254,439)	(2,265,015)

(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, 2016		2015
Cash flows from financing activities:			
Net increase in deposits	1,293,552		1,734,942
Additions to Federal Home Loan Bank advances	10,215,000		3,230,000
Repayments of Federal Home Loan Bank advances	(9,280,000))	(2,805,100)
Dividends paid	(44,860))	(44,288)
Realized tax benefits from dividend equivalents and equity based compensation	552		208
Exercise of stock options	222		33,151
Other financing activities	18,716		17,197
Net cash provided by financing activities	2,203,182		2,166,110
Net increase (decrease) in cash and cash equivalents	92,174		(22,657)
Cash and cash equivalents, beginning of period	267,500		187,517
Cash and cash equivalents, end of period	\$ 359,674		\$ 164,860
Supplemental disclosure of cash flow information:			
Interest paid	\$ 89,129		\$ 56,772
Income taxes paid, net	\$ 937		\$ 19,159
Supplemental schedule of non-cash investing and financing activities:			
Transfers from loans to other real estate owned and other	\$ 13,141		\$ 6,091

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repossessed assets				
Dividends declared, not paid	\$	22,482	\$	22,338
Unsettled purchases of investment securities available for sale	\$	—	\$	25,249

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	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity
Balance at December 31, 2015	103,626,255	\$ 1,036	\$ 1,406,786	\$ 813,894	\$ 22,182	\$ 2,243,898
Comprehensive income	—	—	—	111,599	11,633	123,232
Dividends	—	—	—	(44,962)	—	(44,962)
Equity based compensation	617,617	7	8,197	—	—	8,204
Forfeiture of unvested shares	(87,072)	(1)	1	—	—	—
Exercise of stock options	10,000	—	222	—	—	222
Tax benefits from dividend equivalents and equity based compensation	—	—	552	—	—	552
Balance at June 30, 2016	104,166,800	\$ 1,042	\$ 1,415,758	\$ 880,531	\$ 33,815	\$ 2,331,146
Balance at December 31, 2014	101,656,702	\$ 1,017	\$ 1,353,538	\$ 651,627	\$ 46,352	\$ 2,052,534
Comprehensive income	—	—	—	93,094	4,782	97,876
Dividends	—	—	—	(44,658)	—	(44,658)
Equity based compensation	605,115	6	7,218	—	—	7,224
Forfeiture of unvested shares	(35,240)	—	—	—	—	—
Exercise of stock options	1,249,335	12	33,139	—	—	33,151
Tax benefits from dividend equivalents and equity based compensation	—	—	208	—	—	208
Balance at June 30, 2015	103,475,912	\$ 1,035	\$ 1,394,103	\$ 700,063	\$ 51,134	\$ 2,146,335

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, 2016

Note 1 Basis of Presentation and Summary of Significant Accounting Policies

BankUnited, Inc. is a national bank holding company with one wholly-owned subsidiary, BankUnited, 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 95 branches located in 15 Florida counties and 6 banking centers located in the New York metropolitan area at June 30, 2016. The Bank also offers certain commercial lending and deposit products through national platforms.

In connection with the FSB Acquisition, BankUnited entered into two loss sharing agreements with the FDIC. The Loss Sharing Agreements consist of the Single Family Shared-Loss Agreement and the Commercial Shared-Loss Agreement. Assets covered by the Loss Sharing Agreements are referred to as covered assets or, in certain cases, covered loans. 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 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. 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 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 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, 2015 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, 2016 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 ALLL, the amount and timing of expected cash flows from covered assets and the FDIC indemnification asset, and the fair values of investment securities and other financial instruments. Management has used information provided by third party valuation specialists to assist in the determination of the fair values of investment securities.

Loan Servicing Assets

Effective January 1, 2016, the Company made an irrevocable election to subsequently measure residential MSR's at fair value. Previously, residential MSR's were subsequently measured using the amortization method. This change had no impact on opening retained earnings at January 1, 2016.

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU No. 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 goods or services to customers in an

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BANKUNITED, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED

June 30, 2016

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. Financial instruments and lease contracts are generally outside the scope of the ASU. The FASB has issued subsequent ASUs to clarify certain aspects of ASU 2014-09, without changing the core principle of the guidance and to defer the effective date of ASU 2014-09 to annual periods and interim periods within fiscal years beginning after December 15, 2017. Management continues to evaluate the impact of adoption.

In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. The amendments in the ASU that are expected to be most applicable to the Company 1) require equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income, 2) eliminate the requirement to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet, and 3) require public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes. The amendments in this ASU are effective for the Company for interim and annual periods in fiscal years beginning after December 15, 2017. Management has not completed its evaluation of the impact of adoption of this ASU.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). The amendments in this ASU require a lessee to recognize in the statement of financial position a liability to make lease payments and a right-of-use asset representing its right to use the underlying asset for lease terms longer than one year. Accounting for leases by a lessor will not be significantly impacted by this ASU. The amendments in this ASU are effective for the Company for interim and annual periods in fiscal years beginning after December 15, 2018. Management has not yet made an evaluation of the impact of adoption of this ASU.

In March 2016, the FASB issued ASU No. 2016-06, Derivatives and Hedging (Topic 815): Contingent Put and Call Options in Debt Instruments. The amendments in this ASU clarify the requirements for assessing whether contingent call (put) options that can accelerate the payment of principal on debt instruments are clearly and closely related to their debt hosts. A company performing the assessment under these amendments is required to assess the embedded call (put) options solely in accordance with a four-step decision sequence, without consideration of whether the contingency is related to interest rates or credit risks. The amendments in this ASU are effective for the Company for interim and annual periods in fiscal years beginning after December 15, 2016 and will be applied on a modified retrospective basis. While management does not currently expect adoption to have a material impact on the Company's consolidated financial position, results of operations or cash flows, management has not completed its evaluation of the impact of adoption of this ASU.

In March 2016, the FASB issued ASU No. 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. The amendments in this ASU simplify several aspects of the accounting for share-based payment transactions. The amendments provide, among other items, that a) excess tax benefits and deficiencies be recognized as income tax expense or benefit in the income statement, as opposed to additional paid-in-capital; b) excess tax benefits and deficiencies be classified with other income tax cash flows as an operating activity in the statement of cash flows; and c) an entity may make an entity-wide election to either estimate the number of awards that are expected to vest or account for forfeitures as they occur. The amendments in this ASU are effective for the Company for interim and annual periods in fiscal years beginning after December 15, 2016. Management is currently evaluating the impact of this ASU on the financial statements and related disclosures, including the alternative methods of adoption. The adoption is not expected to materially impact the Company's consolidated financial position, results of operations, or cash flows.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments - Credit Losses (Topic 326). The ASU introduces new guidance for the accounting for credit losses on certain types of financial instruments. The ASU also modifies the impairment model for available for sale securities. The ASU introduces the CECL model which applies to financial assets subject to credit losses and measured at amortized cost, as well as certain off-balance sheet credit exposures. This includes loans, loan commitments and held-to-maturity debt securities. The CECL model requires an entity to estimate credit losses expected over the life of an exposure, considering historical, current and forecast information. The ASU amends the current OTTI model for debt securities and requires an estimate of expected credit losses only when the fair value of an available for sale debt security is below its amortized cost. Credit losses on available for sale debt securities will be limited to the difference between the security's amortized cost basis and its fair value. The ASU also provides for a simplified accounting model for purchased financial assets with more than insignificant credit deterioration since their origination. The amendments in this ASU are effective for the Company for interim and annual periods in fiscal years beginning after December 15, 2019. Management has not yet made an evaluation of the impact of adoption of this ASU.

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BANKUNITED, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED

June 30, 2016

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,	
c	2016	2015	2016	2015
Basic earnings per common share:				
Numerator:				
Net income	\$56,725	\$ 46,637	\$ 111,599	\$ 93,094
Distributed and undistributed earnings allocated to participating securities	(2,282)	(1,810)	(4,490)	(3,582)
Income allocated to common stockholders for basic earnings per common share	\$54,443	\$ 44,827	\$ 107,109	\$ 89,512
Denominator:				
Weighted average common shares outstanding	104,160,894	103,444,183	104,039,977	102,841,376
Less average unvested stock awards	(1,193,517)	(1,174,496)	(1,173,213)	(1,094,366)
Weighted average shares for basic earnings per common share	102,967,377	102,269,687	102,866,764	101,747,010
Basic earnings per common share	\$0.53	\$ 0.44	\$ 1.04	\$ 0.88
Diluted earnings per common share:				
Numerator:				
Income allocated to common stockholders for basic earnings per common share	\$54,443	\$ 44,827	\$ 107,109	\$ 89,512
Adjustment for earnings reallocated from participating securities	(81)	5	(182)	10
Income used in calculating diluted earnings per common share	\$54,362	\$ 44,832	\$ 106,927	\$ 89,522
Denominator:				
Weighted average shares for basic earnings per common share	102,967,377	102,269,687	102,866,764	101,747,010
Dilutive effect of stock options	764,435	863,380	771,592	763,202
Weighted average shares for diluted earnings per common share	103,731,812	103,133,067	103,638,356	102,510,212
Diluted earnings per common share	\$0.52	\$ 0.43	\$ 1.03	\$ 0.87

Included in participating securities above are unvested shares and 3,023,314 dividend equivalent rights outstanding at June 30, 2016 that were issued in conjunction with the IPO of the Company's common stock. These dividend equivalent rights expire in 2021 and participate in dividends on a one-for-one basis.

The following potentially dilutive securities were outstanding at June 30, 2016 and 2015, 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,	
	2016	2015	2016	2015
Unvested shares	1,328,003	1,202,969	1,328,003	1,202,969
Stock options and warrants	1,851,376	1,851,376	1,851,376	1,851,376

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Note 3 Investment Securities

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

	June 30, 2016			Fair Value
	Amortized Cost	Gross Gains	Unrealized Losses	
U.S. Treasury securities	\$4,998	\$19	\$—	\$5,017
U.S. Government agency and sponsored enterprise residential MBS	1,290,739	21,296	(1,326)	1,310,709
U.S. Government agency and sponsored enterprise commercial MBS	113,057	3,844	(18)	116,883
Re-Remics	60,857	937	(19)	61,775
Private label residential MBS and CMOs	469,078	49,037	(357)	517,758
Private label commercial MBS	1,365,610	19,368	(4,095)	1,380,883
Single family rental real estate-backed securities	807,331	5,166	(4,835)	807,662
Collateralized loan obligations	309,647	36	(2,764)	306,919
Non-mortgage asset-backed securities	171,995	3,550	—	175,545
Preferred stocks	66,297	9,884	—	76,181
State and municipal obligations	496,250	38,414	—	534,664
SBA securities	381,351	3,223	(880)	383,694
Other debt securities	3,928	3,814	—	7,742
	\$5,541,138	\$158,588	\$(14,294)	\$5,685,432
	December 31, 2015			Fair Value
	Amortized Cost	Gross Gains	Unrealized Losses	
U.S. Treasury securities	\$4,997	\$—	\$—	\$4,997
U.S. Government agency and sponsored enterprise residential MBS	1,167,197	15,376	(4,255)	1,178,318
U.S. Government agency and sponsored enterprise commercial MBS	95,997	944	(127)	96,814
Re-Remics	88,658	1,138	(105)	89,691
Private label residential MBS and CMOs	502,723	44,822	(2,933)	544,612
Private label commercial MBS	1,219,355	5,533	(6,148)	1,218,740
Single family rental real estate-backed securities	646,156	284	(9,735)	636,705
Collateralized loan obligations	309,615	—	(2,738)	306,877
Non-mortgage asset-backed securities	54,981	1,519	—	56,500
Preferred stocks	75,742	7,467	—	83,209
State and municipal obligations	351,456	10,297	—	361,753
SBA securities	270,553	3,343	(560)	273,336
Other debt securities	3,854	4,133	—	7,987
	\$4,791,284	\$94,856	\$(26,601)	\$4,859,539

Investment securities held to maturity at June 30, 2016 and December 31, 2015 consisted of one State of Israel bond with a carrying value of \$10 million. Fair value approximated carrying value at June 30, 2016 and December 31, 2015. The bond matures in 2024.

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At June 30, 2016, 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	\$471,043	\$485,318
Due after one year through five years	2,793,194	2,825,645
Due after five years through ten years	1,863,069	1,933,619
Due after ten years	347,535	364,669
Preferred stocks with no stated maturity	66,297	76,181
	\$5,541,138	\$5,685,432

Based on the Company's proprietary assumptions, the estimated weighted average life of the investment portfolio as of June 30, 2016 was 4.9 years. The effective duration of the investment portfolio as of June 30, 2016 was 1.8 years. The model results are based on assumptions that may differ from actual results.

The carrying value of securities pledged as collateral for FHLB advances, public deposits, interest rate swaps and to secure borrowing capacity at the FRB totaled \$2.2 billion and \$1.5 billion at June 30, 2016 and December 31, 2015, respectively.

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,	
	2016	2015	2016	2015
Proceeds from sale of investment securities available for sale	\$272,838	\$139,997	\$494,185	\$474,914
Gross realized gains	\$3,858	\$1,128	\$7,057	\$3,625
Gross realized losses	—	—	—	(475)
Gain on investment securities available for sale, net	\$3,858	\$1,128	\$7,057	\$3,150

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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, 2016					
	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 MBS	\$261,403	\$(1,053)	\$9,315	\$(273)	\$270,718	\$(1,326)
U.S. Government agency and sponsored enterprise commercial MBS	36,307	(18)	—	—	36,307	(18)
Re-Remics	3,042	(19)	—	—	3,042	(19)
Private label residential MBS and CMOs	99,240	(264)	9,372	(93)	108,612	(357)
Private label commercial MBS	257,005	(2,125)	208,465	(1,970)	465,470	(4,095)
Single family rental real estate-backed securities	286,213	(1,598)	212,861	(3,237)	499,074	(4,835)
Collateralized loan obligations	242,434	(2,214)	49,450	(550)	291,884	(2,764)
SBA securities	57,772	(880)	—	—	57,772	(880)
	\$1,243,416	\$(8,171)	\$489,463	\$(6,123)	\$1,732,879	\$(14,294)
	December 31, 2015					
	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 MBS	\$321,143	\$(3,065)	\$54,290	\$(1,190)	\$375,433	\$(4,255)
U.S. Government agency and sponsored enterprise commercial MBS	5,273	(127)	—	—	5,273	(127)
Re-Remics	20,421	(105)	—	—	20,421	(105)
Private label residential MBS and CMOs	289,312	(2,401)	16,342	(532)	305,654	(2,933)
Private label commercial MBS	739,376	(4,476)	106,280	(1,672)	845,656	(6,148)
Single family rental real estate-backed securities	381,033	(4,499)	212,491	(5,236)	593,524	(9,735)
Collateralized loan obligations	257,442	(2,173)	49,435	(565)	306,877	(2,738)
SBA securities	41,996	(543)	868	(17)	42,864	(560)
	\$2,055,996	\$(17,389)	\$439,706	\$(9,212)	\$2,495,702	\$(26,601)

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, 2016 or 2015. 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, 2016, 62 securities were in unrealized loss positions. The amount of impairment related to 15 of these securities was considered insignificant, totaling approximately \$188 thousand and no further analysis with respect to these securities was considered.

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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 MBS

At June 30, 2016, eight U.S. Government agency and sponsored enterprise residential MBS were in unrealized loss positions. The substantial majority of the securities had been in unrealized loss positions for nine months or less and the amount of impairment was 1% or less 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 generally limited severity and duration of impairment and the expectation of timely payment of principal and interest, the impairments were considered to be temporary.

Private label residential MBS and CMOs

At June 30, 2016, five private label residential MBS were in unrealized loss positions. The amount of impairment of each of the individual securities was 3% or less of amortized cost. These securities were assessed for OTTI using credit and prepayment behavioral models that incorporate 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 that would result in the Company recovering less than its amortized cost basis related to any of these securities as of June 30, 2016. 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 MBS:

At June 30, 2016, 12 private label commercial MBS were in unrealized loss positions. The unrealized losses were primarily attributable to widening credit spreads and, for certain securities, the assumed exercise of extension options, lengthening spread duration. These securities were assessed for OTTI using credit and prepayment behavioral models incorporating assumptions consistent with the collateral characteristics of each security. The results of this analysis were not indicative of expected credit losses. Each of the securities has greater than 30% current credit enhancement. Given the expectation of timely recovery of outstanding principal, the impairments were considered to be temporary.

Single family rental real estate-backed securities:

At June 30, 2016, 14 single family rental real estate-backed securities were in unrealized loss positions. The unrealized losses were primarily due to widening credit spreads, leading to increased extension risk. The amount of impairment of each of the individual securities was 2% or less of amortized cost. Management's analysis of the credit characteristics, including loan-to-value and debt service coverage ratios, and levels of subordination for each of the securities is not indicative of projected credit losses. Given the limited severity of impairment and the absence of projected credit losses, the impairments were considered to be temporary.

Collateralized loan obligations:

At June 30, 2016, five collateralized loan obligations were in unrealized loss positions, due to widening credit spreads subsequent to acquisition. The amount of impairment of each of the individual securities was less than 2% of amortized cost. Given the limited severity of impairment, levels of subordination and the results of independent analyses of the credit quality of loans underlying the securities, the impairments were considered to be temporary.

SBA securities:

At June 30, 2016, three SBA securities were in unrealized loss positions. The majority of impairment related to one security and was less than 4% of amortized cost. This security was purchased at a premium and the impairment was attributable primarily to increased prepayment speeds. The timely payment of principal and interest on these securities is guaranteed by this U.S. Government agency. Given the limited severity of impairment and the expectation of timely payment of principal and interest, the impairments were considered to be temporary.

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Note 4 Loans and Allowance for Loan and Lease Losses

The Company segregates its loan portfolio between covered and non-covered loans. Non-covered loans include those originated or purchased since the FSB Acquisition ("new loans") and loans acquired in the FSB Acquisition for which loss share coverage has terminated. Loans acquired in the FSB Acquisition are further segregated between ACI loans and non-ACI loans.

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

	June 30, 2016					Percent of Total	
	Non-Covered Loans		Covered Loans		Total		
	New Loans	ACI	ACI	Non-ACI			
Residential:							
1-4 single family residential	\$3,153,822	\$—	\$622,306	\$40,482	\$3,816,610	21.0	%
Home equity loans and lines of credit	1,172	—	3,510	57,174	61,856	0.3	%
	3,154,994	—	625,816	97,656	3,878,466	21.3	%
Commercial:							
Multi-family	3,675,945	24,577	—	—	3,700,522	20.3	%
Commercial real estate							
Owner occupied	1,582,084	9,638	—	—	1,591,722	8.8	%
Non-owner occupied	3,439,888	13,981	—	—	3,453,869	19.0	%
Construction and land	400,231	—	—	—	400,231	2.2	%
Commercial and industrial	2,981,955	1,031	—	—	2,982,986	16.4	%
Commercial lending subsidiaries	2,139,795	—	—	—	2,139,795	11.8	%
	14,219,898	49,227	—	—	14,269,125	78.5	%
Consumer	31,587	8	—	—	31,595	0.2	%
Total loans	17,406,479	49,235	625,816	97,656	18,179,186	100.0	%
Premiums, discounts and deferred fees and costs, net	47,295	—	—	(6,879)	40,416		
Loans including premiums, discounts and deferred fees and costs	17,453,774	49,235	625,816	90,777	18,219,602		
Allowance for loan and lease losses	(132,265)	—	—	(3,453)	(135,718)		
Loans, net	\$17,321,509	\$49,235	\$625,816	\$87,324	\$18,083,884		

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	December 31, 2015					Percent of Total	
	Non-Covered Loans		Covered Loans				
	New Loans	ACI	ACI	Non-ACI	Total		
Residential:							
1-4 single family residential	\$2,883,470	\$—	\$699,039	\$46,110	\$3,628,619	21.9	%
Home equity loans and lines of credit	806	—	4,831	67,493	73,130	0.4	%
	2,884,276	—	703,870	113,603	3,701,749	22.3	%
Commercial:							
Multi-family	3,447,526	24,636	—	—	3,472,162	20.9	%
Commercial real estate							
Owner occupied	1,338,184	16,567	—	—	1,354,751	8.2	%
Non-owner occupied	2,885,226	25,101	—	—	2,910,327	17.5	%
Construction and land	347,676	—	—	—	347,676	2.1	%
Commercial and industrial	2,769,813	1,062	—	—	2,770,875	16.7	%
Commercial lending subsidiaries	2,003,984	—	—	—	2,003,984	12.1	%
	12,792,409	67,366	—	—	12,859,775	77.5	%
Consumer	35,173	10	—	—	35,183	0.2	%
Total loans	15,711,858	67,376	703,870	113,603	16,596,707	100.0	%
Premiums, discounts and deferred fees and costs, net	47,829	—	—	(7,933)	39,896		
Loans including premiums, discounts and deferred fees and costs	15,759,687	67,376	703,870	105,670	16,636,603		
Allowance for loan and lease losses	(120,960)	—	—	(4,868)	(125,828)		
Loans, net	\$15,638,727	\$67,376	\$703,870	\$100,802	\$16,510,775		

Through two subsidiaries, the Bank provides commercial and municipal equipment financing utilizing both loan and lease structures. At June 30, 2016 and December 31, 2015, the commercial lending subsidiaries portfolio included a net investment in direct financing leases of \$556 million and \$472 million, respectively.

During the three and six months ended June 30, 2016 and 2015, the Company purchased 1-4 single family residential loans totaling \$328 million, \$582 million, \$266 million and \$435 million, respectively.

At June 30, 2016, the Company had pledged real estate loans with UPB of approximately \$9.0 billion and recorded investment of approximately \$8.1 billion as security for FHLB advances.

At June 30, 2016 and December 31, 2015, the UPB of ACI loans was \$1.8 billion and \$2.0 billion, respectively. 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, 2016 and the year ended December 31, 2015 were as follows (in thousands):

Balance at December 31, 2014	\$1,005,312
Reclassifications from non-accretable difference	192,291
Accretion	(295,038)
Balance at December 31, 2015	902,565
Reclassifications from non-accretable difference	54,275
Accretion	(153,440)
Balance at June 30, 2016	\$803,400

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Covered loan sales

During the periods indicated, the Company sold covered 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,	
	2016	2015	2016	2015
UPB of loans sold	\$58,699	\$62,708	\$115,552	\$118,121
Cash proceeds, net of transaction costs	\$40,954	\$50,916	\$83,490	\$98,611
Recorded investment in loans sold	45,105	43,499	88,353	81,188
Gain (loss) on sale of covered loans, net	\$(4,151)	\$7,417	\$(4,863)	\$17,423
Gain (loss) on FDIC indemnification, net	\$3,363	\$(5,928)	\$3,932	\$(14,046)

Allowance for loan and lease losses

Activity in the ALLL is summarized as follows for the periods indicated (in thousands):

	Three Months Ended June 30,				2015							
	2016		2015		Residential		Commercial		Consumer		Total	
	Residential	Commercial	Consumer	Total	Residential	Commercial	Consumer	Total	Residential	Commercial	Consumer	Total
Beginning balance	\$13,594	\$111,816	\$234	\$125,644	\$13,202	\$86,446	\$188	\$99,836				
Provision for (recovery of) loan losses:												
Non-ACI loans	67	(10)	—	57	62	(17)	—	45				
New loans	(876)	15,267	(115)	14,276	781	7,604	(9)	8,376				
Total provision	(809)	15,257	(115)	14,333	843	7,587	(9)	8,421				
Charge-offs:												
Non-ACI loans	(501)	—	—	(501)	(630)	—	—	(630)				
New loans	—	(5,325)	—	(5,325)	—	(884)	—	(884)				
Total charge-offs	(501)	(5,325)	—	(5,826)	(630)	(884)	—	(1,514)				
Recoveries:												
Non-ACI loans	2	10	—	12	14	17	—	31				
New loans	—	1,545	10	1,555	—	591	20	611				
Total recoveries	2	1,555	10	1,567	14	608	20	642				
Ending balance	\$12,286	\$123,303	\$129	\$135,718	\$13,429	\$93,757	\$199	\$107,385				

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	Six Months Ended June 30,				2015				
	2016	Residential	Commercial	Consumer	Total	Residential	Commercial	Consumer	Total
Beginning balance	\$ 15,958	\$ 109,617	\$ 253	\$ 125,828	\$ 11,325	\$ 84,027	\$ 190	\$ 95,542	
Provision for (recovery of)									
loan losses:									
Non-ACI loans	(644)	(30)	—	(674)	(374)	(32)	—	(406)	
New loans	(2,257)	21,109	(137)	18,715	3,726	13,262	(14)	16,974	
Total provision	(2,901)	21,079	(137)	18,041	3,352	13,230	(14)	16,568	
Charge-offs:									
Non-ACI loans	(839)	—	—	(839)	(1,269)	—	—	(1,269)	
New loans	—	(9,133)	—	(9,133)	—	(4,283)	—	(4,283)	
Total charge-offs	(839)	(9,133)	—	(9,972)	(1,269)	(4,283)	—	(5,552)	
Recoveries:									
Non-ACI loans	68	30	—	98	21	32	—	53	
New loans	—	1,710	13	1,723	—	751	23	774	
Total recoveries	68	1,740	13	1,821	21	783	23	827	
Ending balance	\$ 12,286	\$ 123,303	\$ 129	\$ 135,718	\$ 13,429	\$ 93,757	\$ 199	\$ 107,385	

Beginning in the first quarter of 2016, the methodology for calculation of the ALLL was changed to extend the loss experience period used to calculate historical average net charge-off rates from 12 quarters to 16 quarters. We believe this extension of the look back period is appropriate at this time to capture a sufficient range of observations reflecting the performance of our loans, most of which were originated in the current economic cycle, and to reflect recent indications that the U.S. economy continues to move through the credit cycle. Extending the look back period to 16 quarters resulted in an increase in the ALLL of approximately \$9 million as of March 31, 2016, as compared to using a 12-quarter look back period at the same date. This increase was largely offset by reductions in certain qualitative factors.

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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, 2016				December 31, 2015			
	Residential	Commercial	Consumer	Total	Residential	Commercial	Consumer	Total
Allowance for loan and lease losses:								
Ending balance	\$ 12,286	\$ 123,303	\$ 129	\$ 135,718	\$ 15,958	\$ 109,617	\$ 253	\$ 125,828
Ending balance: non-ACI and new loans individually evaluated for impairment	\$ 605	\$ 11,711	\$ —	\$ 12,316	\$ 978	\$ 5,439	\$ —	\$ 6,417
Ending balance: non-ACI and new loans collectively evaluated for impairment	\$ 11,681	\$ 111,592	\$ 129	\$ 123,402	\$ 14,980	\$ 104,178	\$ 253	\$ 119,411
Ending balance: ACI	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Ending balance: non-ACI	\$ 3,453	\$ —	\$ —	\$ 3,453	\$ 4,868	\$ —	\$ —	\$ 4,868
Ending balance: new loans	\$ 8,833	\$ 123,303	\$ 129	\$ 132,265	\$ 11,090	\$ 109,617	\$ 253	\$ 120,960
Loans:								
Ending balance	\$ 3,913,311	\$ 14,274,777	\$ 31,514	\$ 18,219,602	\$ 3,734,967	\$ 12,866,548	\$ 35,088	\$ 16,636,603
Ending balance: non-ACI and new loans individually evaluated for impairment	\$ 12,139	\$ 117,115	\$ —	\$ 129,254	\$ 12,240	\$ 54,128	\$ —	\$ 66,368
Ending balance: non-ACI and new loans collectively evaluated for impairment	\$ 3,275,356	\$ 14,108,435	\$ 31,506	\$ 17,415,297	\$ 3,018,857	\$ 12,745,054	\$ 35,078	\$ 15,798,989
Ending balance: ACI loans	\$ 625,816	\$ 49,227	\$ 8	\$ 675,051	\$ 703,870	\$ 67,366	\$ 10	\$ 771,246

Credit quality information

New and non-ACI loans are considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due, according to the contractual terms of the loan agreements. Commercial relationships on non-accrual status with committed balances greater than or equal to \$1.0 million that have internal risk ratings of substandard or doubtful, as well as loans that

have been modified in TDRs, are individually evaluated for impairment. The likelihood of loss related to loans assigned internal risk ratings of substandard or doubtful is considered elevated due to their identified credit weaknesses. Factors considered by management in evaluating impairment include payment status, financial condition of the borrower, collateral value, and other factors impacting the probability of collecting scheduled principal and interest payments when due.

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The tables below present information about new and non-ACI loans identified as impaired as of the dates indicated (in thousands):

	June 30, 2016			December 31, 2015		
	Recorded Investment	UPB	Related Specific Allowance	Recorded Investment	UPB	Related Specific Allowance
New loans:						
With no specific allowance recorded:						
Commercial real estate						
Owner occupied	\$ 10,436	\$ 10,450	\$ —	\$ 6,194	\$ 6,015	\$ —
Non-owner occupied	—	—	—	548	533	—
Commercial and industrial	18,530	18,530	—	3,561	3,559	—
Commercial lending subsidiaries	7,419	7,399	—	3,839	3,821	—
With a specific allowance recorded:						
1-4 single family residential						
Commercial real estate	344	330	6	—	—	—
Owner occupied	8,460	7,835	857	—	—	—
Construction and land	1,331	1,238	202	—	—	—
Commercial and industrial	70,939	70,926	10,652	34,340	34,370	3,799
Commercial lending subsidiaries	—	—	—	5,646	5,628	1,640
Total:						
Residential	\$ 344	\$ 330	\$ 6	\$ —	\$ —	\$ —
Commercial	117,115	116,378	11,711	54,128	53,926	5,439
	\$ 117,459	\$ 116,708	\$ 11,717	\$ 54,128	\$ 53,926	\$ 5,439
Non-ACI loans:						
With no specific allowance recorded:						
1-4 single family residential						
	\$ 1,188	\$ 1,396	\$ —	\$ 417	\$ 490	\$ —
Home equity loans and lines of credit	1,724	1,750	—	1,607	1,633	—
With a specific allowance recorded:						
1-4 single family residential						
	1,831	2,152	280	3,301	3,828	570
Home equity loans and lines of credit	7,052	7,158	319	6,915	7,028	408
Total:						
Residential	\$ 11,795	\$ 12,456	\$ 599	\$ 12,240	\$ 12,979	\$ 978
Commercial	—	—	—	—	—	—
	\$ 11,795	\$ 12,456	\$ 599	\$ 12,240	\$ 12,979	\$ 978

One non-owner occupied commercial real estate ACI loan modified in a TDR was impaired as of June 30, 2016 and December 31, 2015, with a carrying value of \$505 thousand and \$500 thousand, respectively. Interest income recognized on impaired loans after impairment was not significant during the periods presented.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED

June 30, 2016

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

	Three Months Ended June 30,					
	2016			2015		
	New Loans	Non-ACI Loans	ACI Loans	New Loans	Non-ACI Loans	ACI Loans
Residential:						
1-4 single family residential	\$291	\$3,104	\$ —	\$110	\$3,681	\$ —
Home equity loans and lines of credit	—	8,669	—	—	4,032	—
	291	11,773	—	110	7,713	—
Commercial:						
Commercial real estate						
Owner occupied	14,627	—	—	4,764	—	—
Non-owner occupied	273	—	504	649	—	508
Construction and land	666	—	—	—	—	—
Commercial and industrial	70,186	—	—	22,414	—	—
Commercial lending subsidiaries	9,487	—	—	20,272	—	—
	95,239	—	504	48,099	—	508
	\$95,530	\$11,773	\$504	\$48,209	\$7,713	\$508

	Six Months Ended June 30,					
	2016			2015		
	New Loans	Non-ACI Loans	ACI Loans	New Loans	Non-ACI Loans	ACI Loans
Residential:						
1-4 single family residential	\$205	\$3,279	\$ —	\$73	\$3,738	\$ —
Home equity loans and lines of credit	—	8,605	—	—	3,539	—
	205	11,884	—	73	7,277	—
Commercial:						
Commercial real estate						
Owner occupied	11,452	—	—	4,171	—	—
Non-owner occupied	410	—	502	874	—	338
Construction and land	333	—	—	—	—	—
Commercial and industrial	57,294	—	—	20,270	—	—
Commercial lending subsidiaries	10,004	—	—	16,410	—	—
	79,493	—	502	41,725	—	338
	\$79,698	\$11,884	\$502	\$41,798	\$7,277	\$338

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June 30, 2016

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

	June 30, 2016		December 31, 2015	
	New Loans	Non-ACI Loans	New Loans	Non-ACI Loans
Residential:				
1-4 single family residential	\$375	\$ 930	\$2,007	\$ 594
Home equity loans and lines of credit	—	2,768	—	4,724
	375	3,698	2,007	5,318
Commercial:				
Commercial real estate				
Owner occupied	21,050	—	8,274	—
Non-owner occupied	563	—	—	—
Construction and land	1,331	—	—	—
Commercial and industrial	49,591	—	37,782	—
Commercial lending subsidiaries	7,784	—	9,920	—
	80,319	—	55,976	—
Consumer	6	—	7	—
	\$80,700	\$ 3,698	\$57,990	\$ 5,318

There were no new and non-ACI loans contractually delinquent by 90 days or more and still accruing at June 30, 2016 or December 31, 2015. The amount of additional interest income that would have been recognized on non-accrual loans had they performed in accordance with their contractual terms was approximately \$0.9 million and \$1.5 million for the three and six months ended June 30, 2016, respectively.

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 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. Generally, relationships with balances in excess of defined thresholds, ranging from \$1 million to \$3 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, but because of certain reasonably specific pending factors has not been charged off, 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 include 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, 2016					
FICO					
LTV	720 or less	721 - 740	741 - 760	761 or greater	Total
60% or less	\$81,944	\$104,943	\$154,216	\$717,319	\$1,058,422
60% - 70%	77,054	91,345	122,688	496,097	787,184
70% - 80%	91,843	128,468	247,908	838,137	1,306,356
More than 80%	24,317	3,636	2,989	12,642	43,584
	\$275,158	\$328,392	\$527,801	\$2,064,195	\$3,195,546
December 31, 2015					
FICO					
LTV	720 or less	721 - 740	741 - 760	761 or greater	Total
60% or less	\$78,836	\$99,094	\$143,864	\$667,420	\$989,214
60% - 70%	71,046	76,878	111,343	479,344	738,611
70% - 80%	63,380	100,271	211,299	772,646	1,147,596
More than 80%	28,338	3,938	3,481	13,443	49,200
	\$241,600	\$280,181	\$469,987	\$1,932,853	\$2,924,621

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Commercial credit exposure, based on internal risk rating:

June 30, 2016

Commercial Real Estate

	Multi-Family	Owner Occupied	Non-Owner Occupied	Construction and Land	Commercial and Industrial	Commercial Lending Subsidiaries	Total
New loans:							
Pass	\$3,680,308	\$1,540,467	\$3,432,194	\$ 398,507	\$2,745,072	\$2,109,319	\$13,905,867
Special mention	—	10,414	—	—	57,134	14,966	82,514
Substandard	399	31,472	1,272	1,222	171,675	24,571	230,611
Doubtful	—	597	—	109	5,852	—	6,558
	\$3,680,707	\$1,582,950	\$3,433,466	\$ 399,838	\$2,979,733	\$2,148,856	\$14,225,550
ACI loans:							
Pass	\$24,283	\$8,796	\$13,736	\$ —	\$1,024	\$ —	\$47,839
Special mention	—	—	—	—	—	—	—
Substandard	294	842	245	—	7	—	1,388
	\$24,577	\$9,638	\$13,981	\$ —	\$1,031	\$ —	\$49,227

December 31, 2015

Commercial Real Estate

	Multi-Family	Owner Occupied	Non-Owner Occupied	Construction and Land	Commercial and Industrial	Commercial Lending Subsidiaries	Total
New loans:							
Pass	\$3,451,571	\$1,317,081	\$2,879,135	\$ 346,795	\$2,587,801	\$1,981,068	\$12,563,451
Special mention	—	4,824	548	—	7,556	18,584	31,512
Substandard	402	17,042	434	176	168,875	11,018	197,947
Doubtful	—	—	—	—	4,296	1,976	6,272
	\$3,451,973	\$1,338,947	\$2,880,117	\$ 346,971	\$2,768,528	\$2,012,646	\$12,799,182
ACI loans:							
Pass	\$24,338	\$15,708	\$24,857	\$ —	\$1,035	\$ —	\$65,938
Special mention	—	859	—	—	—	—	859
Substandard	298	—	84	—	27	—	409
Doubtful	—	—	160	—	—	—	160
	\$24,636	\$16,567	\$25,101	\$ —	\$1,062	\$ —	\$67,366

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June 30, 2016

Aging of loans:

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

	June 30, 2016				December 31, 2015					
	Current	30 - 59 Days Past Due	60 - 89 Days Past Due	90 Days or More Past Due	Total	Current	30 - 59 Days Past Due	60 - 89 Days Past Due	90 Days or More Past Due	Total
New loans:										
1-4 single family residential Home equity loans and lines of credit	\$3,190,010	\$5,161	\$160	\$215	\$3,195,546	\$2,922,096	\$517	\$551	\$1,457	\$2,924,621
Multi-family Commercial real estate Owner occupied	1,172	—	—	—	1,172	806	—	—	—	806
Non-owner occupied	3,680,707	—	—	—	3,680,707	3,451,973	—	—	—	3,451,973
Construction and land Commercial and industrial Commercial lending subsidiaries	398,507	—	—	1,331	399,838	342,477	4,494	—	—	346,971
Consumer	2,957,293	286	8,348	13,806	2,979,733	2,739,357	2,235	4,827	22,109	2,768,528
	2,141,786	—	3,570	3,500	2,148,856	2,003,842	3,839	—	4,965	2,012,646
	30,670	836	—	—	31,506	35,078	—	—	—	35,078
	\$17,407,756	\$7,854	\$16,250	\$21,914	\$17,453,774	\$15,702,978	\$14,417	\$10,162	\$32,130	\$15,759,687
Non-ACI loans:										
1-4 single family residential Home equity loans and lines of credit	\$32,467	\$1,052	\$—	\$930	\$34,449	\$37,249	\$1,415	\$—	\$594	\$39,258
	51,383	2,321	166	2,458	56,328	60,760	1,090	443	4,119	66,412
	\$83,850	\$3,373	\$166	\$3,388	\$90,777	\$98,009	\$2,505	\$443	\$4,713	\$105,670
ACI loans:										
1-4 single family	\$595,528	\$10,161	\$1,648	\$14,969	\$622,306	\$661,755	\$12,490	\$4,950	\$19,844	\$699,039

residential										
Home equity										
loans and	3,064	57	31	358	3,510	4,243	127	9	452	4,831
lines of										
credit										
Multi-family	24,577	—	—	—	24,577	24,636	—	—	—	24,636
Commercial										
real estate										
Owner	9,638	—	—	—	9,638	16,567	—	—	—	16,567
occupied										
Non-owner	13,812	—	—	169	13,981	24,941	—	160	—	25,101
occupied										
Commercial										
and	1,031	—	—	—	1,031	1,041	—	21	—	1,062
industrial										
Consumer	8	—	—	—	8	10	—	—	—	10
	\$647,658	\$10,218	\$1,679	\$15,496	\$675,051	\$733,193	\$12,617	\$5,140	\$20,296	\$771,246

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 \$15 million and \$20 million, at June 30, 2016 and December 31, 2015, respectively.

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Foreclosure of residential real estate:

The carrying amount of foreclosed residential real estate properties included in "Other assets" in the accompanying consolidated balance sheets, all of which are covered, totaled \$9 million at both June 30, 2016 and December 31, 2015. The recorded investment in residential mortgage loans in the process of foreclosure totaled \$9 million and \$13 million at June 30, 2016 and December 31, 2015, respectively, substantially all of which were covered loans.

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, 2016 and 2015, that experienced payment defaults during the periods indicated (dollars in thousands):

	Three Months Ended June 30, 2016				2015			
	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 Recorded	Investment	Number Recorded	Investment	Number Recorded	Investment	Number Recorded	Investment
	TDRs	TDRs	TDRs	TDRs	TDRs	TDRs	TDRs	TDRs
New loans:								
1-4 single family residential	1	\$ 107	—	\$ —	—	\$ —	—	\$ —
Commercial real estate	2	4,768	—	—	—	—	—	—
Commercial and industrial	20	31,105	5	3,312	1	812	—	—
	23	\$ 35,980	5	\$ 3,312	1	\$ 812	—	\$ —
Non-ACI loans:								
Home equity loans and lines of credit	4	\$ 315	2	\$ 509	3	\$ 547	1	\$ 242
	4	\$ 315	2	\$ 509	3	\$ 547	1	\$ 242
Six Months Ended June 30, 2016								
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 Recorded	Investment	Number Recorded	Investment	Number Recorded	Investment	Number Recorded	Investment	
TDRs	TDRs	TDRs	TDRs	TDRs	TDRs	TDRs	TDRs	
New loans:								
1-4 single family residential	1	\$ 107	—	\$ —	1	\$ 110	—	\$ —
Commercial real estate	2	4,768	—	—	—	—	—	—
Commercial and industrial	44	48,212	5	3,312	1	812	—	—
	47	\$ 53,087	5	\$ 3,312	2	\$ 922	—	\$ —
Non-ACI loans:								
Home equity loans and lines of credit	6	\$ 628	2	\$ 509	10	\$ 1,945	1	\$ 242
	6	\$ 628	2	\$ 509	10	\$ 1,945	1	\$ 242
ACI loans:								
Commercial real estate	—	\$ —	—	\$ —	1	\$ 506	—	\$ —
	—	\$ —	—	\$ —	1	\$ 506	—	\$ —

Modifications during the three and six months ended June 30, 2016 and 2015 included interest rate reductions, restructuring of the amount and timing of required periodic payments, extensions of maturity and residential modifications under the U.S. Treasury Department's 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. The majority of commercial and industrial loans modified in TDRs and all of commercial and industrial TDRs experiencing payment defaults during the three and six months ended June 30, 2016 were tax medallion loans.

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BANKUNITED, INC. AND SUBSIDIARIES

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June 30, 2016

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 consolidated 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 transactions in the covered assets are recorded in the consolidated statement of income line item "Net loss on FDIC indemnification" and reflected as corresponding increases or decreases in the FDIC indemnification asset.

In addition, recoveries of previously indemnified losses on commercial loans and gains on the sale of investment securities that were previously covered under the Commercial Shared-Loss Agreement result in reimbursements due to the FDIC. These transactions are included in the tables below. Amounts payable to the FDIC resulting from these transactions are recognized in other liabilities in the accompanying consolidated balance sheets.

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,					
	2016			2015		
	Transaction Income (Loss)	Net Loss on FDIC Indemnification	Net Impact on Pre-tax Earnings	Transaction Income (Loss)	Net Loss on FDIC Indemnification	Net Impact on Pre-tax Earnings
Recovery of (provision for) losses on covered loans ⁽¹⁾	\$44	\$ (36)	\$ 8	\$ (27)	\$ 22	\$ (5)
Income from resolution of covered assets, net	9,545	(7,636)	1,909	13,743	(10,909)	2,834
Gain (loss) on sale of covered loans	(4,151)	3,363	(788)	7,417	(5,928)	1,489
Loss on covered OREO	(243)	195	(48)	(222)	44	(178)
	\$5,195	\$ (4,114)	\$ 1,081	\$20,911	\$ (16,771)	\$ 4,140

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June 30, 2016

	Six Months Ended June 30,			2015		
	2016			2015		
	Transaction	Net Loss on	Net Impact	Transaction	Net Loss on	Net Impact
	Income	FDIC	on Pre-tax	Income	FDIC	on Pre-tax
	(Loss)	Indemnification	Earnings	(Loss)	Indemnification	Earnings
Recovery of losses on covered loans ⁽¹⁾	\$ 801	\$ (639)	\$ 162	\$ 473	\$ (380)	\$ 93
Income from resolution of covered assets, net	17,543	(14,034)	3,509	28,897	(23,031)	5,866
Gain (loss) on sale of covered loans	(4,863)	3,932	(931)	17,423	(14,046)	3,377
Loss on covered OREO	(405)	338	(67)	(693)	421	(272)
	\$ 13,076	\$ (10,403)	\$ 2,673	\$ 46,100	\$ (37,036)	\$ 9,064

Transaction income (loss) for the three and six months ended June 30, 2016 and 2015 includes recoveries of \$101 (1)thousand, \$127 thousand, \$18 thousand and \$67 thousand, respectively, related to unfunded loan commitments included in other non-interest expense in the accompanying consolidated statements of income.

Changes in the FDIC indemnification asset and in the liability to the FDIC for recoveries related to assets previously covered under the Commercial Shared-Loss Agreement for the six months ended June 30, 2016 and the year ended December 31, 2015, were as follows (in thousands):

Balance at December 31, 2014	\$ 974,335
Amortization	(109,411)
Reduction for claims filed	(59,139)
Net loss on FDIC indemnification	(65,942)
Balance at December 31, 2015	739,843
Amortization	(77,754)
Reduction for claims filed	(18,028)
Net loss on FDIC indemnification	(10,403)
Balance at June 30, 2016	\$ 633,658

The balances at June 30, 2016 and December 31, 2015 are reflected in the consolidated balance sheets as follows (in thousands):

	June 30,	December 31,
	2016	2015
FDIC indemnification asset	\$ 633,744	\$ 739,880
Other liabilities	(86)	(37)
	\$ 633,658	\$ 739,843

Note 6 Income Taxes

The Company's effective income tax rate was 33.0% and 33.5% for the three months ended June 30, 2016 and 2015, respectively, and 33.9% and 34.1% for the six months ended June 30, 2016 and 2015, respectively. The effective income tax rate differed from the statutory federal income tax rate of 35% primarily due to the impact of tax-exempt income, partially offset by the impact of state income taxes.

The Company has investments in affordable housing limited partnerships which generate federal Low Income Housing Tax Credits and other tax benefits. The balance of these investments, included in other assets in the accompanying consolidated balance sheet, was \$72 million and \$59 million at June 30, 2016 and December 31, 2015, respectively. Unfunded commitments for affordable housing investments, included in other liabilities in the accompanying consolidated balance sheet, were \$60 million and \$52 million at June 30, 2016 and December 31, 2015, respectively. The maximum exposure to loss as a result of the Company's involvement with these limited partnerships

at June 30, 2016 was approximately \$74 million. While the Company

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BANKUNITED, INC. AND SUBSIDIARIES

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June 30, 2016

believes the likelihood of potential losses from these investments is remote, the maximum exposure was determined by assuming a scenario where the projects completely fail and do not meet certain government compliance requirements resulting in recapture of the related tax credits. These investments did not have a significant impact on income tax expense for the three and six months ended June 30, 2016 and June 30, 2015.

Note 7 Derivatives and Hedging Activities

The Company uses interest rate swaps to manage interest rate risk related to liabilities that 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 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, 2016 and 2015 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, 2016						
Hedged Item		Weighted Average Pay Rate	Weighted Average Receive Rate	Weighted Average Remaining Life in Years	Notional Amount	Balance Sheet Location	Fair Value Asset Liability	
Derivatives designated as cash flow hedges:								
Pay-fixed interest rate swaps	Variability of interest cash flows on variable rate borrowings	1.52%	3-Month Libor	3.3	\$1,790,000	Other liabilities	\$—	\$(35,874)
Pay-fixed forward-starting interest rate swaps	Variability of interest cash flows on variable rate borrowings	3.43%	3-Month Libor	11.0	300,000	Other liabilities	—	(55,148)
Derivatives not designated as hedges:								
Pay-fixed interest rate swaps		3.99%	Indexed to 1-month Libor	7.0	782,414	Other liabilities	—	(61,459)
Pay-variable interest rate swaps			Indexed to 1-month Libor	7.0	782,414	Other assets	61,459	—
Interest rate caps purchased, indexed to 1-month Libor			2.75%	2.2	123,161	Other assets	12	—
Interest rate caps sold, indexed to 1-month Libor		2.75%		2.2	123,161	Other liabilities	—	(12)
					\$3,901,150		\$61,471	\$(152,493)
December 31, 2015								
Hedged Item		Weighted Average Pay Rate	Weighted Average Receive Rate	Weighted Average Remaining Life	Notional Amount	Balance Sheet Location	Fair Value Asset Liability	

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Life
in Years

Derivatives
designated as
cash flow
hedges:

Pay-fixed interest rate swaps	Variability of interest cash flows on variable rate borrowings	1.62%	3-Month Libor	2.6	\$ 1,805,000	Other assets / Other liabilities	\$ 3,442	\$(12,347)
Pay-fixed forward-starting interest rate swaps	Variability of interest cash flows on variable rate borrowings	3.43%	3-Month Libor	11.5	300,000	Other liabilities	—	(26,274)
Derivatives not designated as hedges:								
Pay-fixed interest rate swaps		4.08%	Indexed to 1-month Libor	7.0	663,311	Other assets / Other liabilities	225	(30,514)
Pay-variable interest rate swaps			Indexed to 1-month Libor	7.0	663,311	Other assets / Other liabilities	30,514	(225)
Interest rate caps purchased, indexed to 1-month Libor			2.85%	2.2	139,786	Other assets	164	—
Interest rate caps sold, indexed to 1-month Libor		2.85%		2.2	139,786	Other liabilities	—	(164)
					\$ 3,711,194		\$ 34,345	\$(69,524)

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During the three and six months ended June 30, 2016 and 2015, the amount of loss reclassified from AOCI into interest expense (effective portion) was \$4.3 million, \$9.3 million, \$6.5 million and \$13.1 million, respectively. During the six months ended June 30, 2016 and 2015, no derivative positions designated as cash flow hedges were discontinued and none of the gains and losses reported in AOCI were reclassified into earnings as a result of the discontinuance of cash flow hedges or because of the early extinguishment of debt. As of June 30, 2016, the amount of loss expected to be reclassified from AOCI into earnings during the next twelve months was \$15.1 million. Some of the Company's ISDA master agreements with financial institution counterparties contain provisions that permit either counterparty to terminate the agreements and require settlement in the event that regulatory capital ratios fall below certain designated thresholds, upon the initiation of other defined regulatory actions or upon suspension or withdrawal of the Bank's credit rating. Currently, there are no circumstances that would trigger these provisions of the agreements.

The Company does not offset assets and liabilities under master netting agreements for financial reporting purposes. Information on interest rate swaps subject to these agreements is as follows at the dates indicated (in thousands):

June 30, 2016

	Gross Amounts Recognized	Gross Amounts Offset in Balance Sheet	Net Amounts Presented in Balance Sheet	Gross Amounts Not Offset in Balance Sheet Derivative Instruments	Collateral Pledged	Net Amount
Derivative assets	\$ 12	\$ —	\$ 12	\$ (12)	\$ —	\$ —
Derivative liabilities	(152,481)	—	(152,481)	12	152,468	(1)
	\$ (152,469)	\$ —	\$ (152,469)	\$ —	\$ 152,468	\$ (1)

December 31, 2015

	Gross Amounts Recognized	Gross Amounts Offset in Balance Sheet	Net Amounts Presented in Balance Sheet	Gross Amounts Not Offset in Balance Sheet Derivative Instruments	Collateral Pledged	Net Amount
Derivative assets	\$ 3,830	\$ —	\$ 3,830	\$ (3,605)	\$ —	\$ 225
Derivative liabilities	(69,135)	—	(69,135)	3,605	65,530	—
	\$ (65,305)	\$ —	\$ (65,305)	\$ —	\$ 65,530	\$ 225

The difference between the amounts reported for interest rate swaps subject to master netting agreements and the total fair value of interest rate contract derivative financial instruments reported in the consolidated balance sheets is related to interest rate contracts entered into with borrowers not subject to master netting agreements.

At June 30, 2016, the Company had pledged investment securities available for sale with a carrying amount of \$89 million and cash on deposit of \$98 million as collateral for interest rate swaps in a liability position. No financial collateral was pledged by counterparties to the Company for interest rate swaps in an asset position. The amount of collateral required to be posted varies based on the settlement value of outstanding swaps and in some cases may include initial margin requirements.

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The categories of AOCI and changes therein are presented below for the periods indicated (in thousands):

	Unrealized Gains on Investment Securities Available for Sale	Unrealized Losses on Derivative Instruments	Total
Balance at December 31, 2015	\$ 41,535	\$ (19,353)	\$22,182
Other comprehensive income (loss)	46,004	(34,371)	11,633
Balance at June 30, 2016	\$ 87,539	\$ (53,724)	\$33,815
Balance at December 31, 2014	\$ 68,322	\$ (21,970)	\$46,352
Other comprehensive income (loss)	(61)	4,843)	4,782
Balance at June 30, 2015	\$ 68,261	\$ (17,127)	\$51,134

Note 9 Equity Based and Other Compensation Plans

During the six months ended June 30, 2016, the Company granted 633,388 unvested share awards under the 2014 Plan. All of the shares vest in equal annual installments over a period of three years from the date of grant. The shares granted were valued at the closing price of the Company's common stock on the date of grant, ranging from \$30.71 to \$33.76, and had an aggregate fair value of \$19.6 million. The total unrecognized compensation cost of \$27.9 million for all unvested share awards outstanding at June 30, 2016 will be recognized over a weighted average remaining period of 2.04 years.

During the six months ended June 30, 2015, the Company granted 605,115 unvested share awards under the 2010 Plan. All of the shares vest in equal annual installments over a period of three years from the date of grant. The shares granted were valued at the closing price of the Company's common stock on the date of grant, ranging from \$31.35 to \$34.06, and had an aggregate fair value of \$19.1 million.

Executive share-based awards

Two of the Company's executives are eligible to receive annual awards of RSUs and PSUs (collectively, the "share units"). RSUs represent a fixed number of shares and vest in equal tranches over 3 years. PSUs are initially granted based on a target value. The number of PSUs that ultimately vest at the end of a three-year performance measurement period will be based on the achievement of performance criteria pre-established by the Compensation Committee of the Board of Directors. Upon vesting, the share units will be converted to common stock on a one-for-one basis, or may be settled in cash at the Company's option. The share units will accumulate dividends declared on the Company's common stock from the date of grant to be paid subsequent to vesting. During the six months ended June 30, 2016, 57,873 RSUs and 57,873 PSUs were granted. The RSUs were valued at the closing price of the Company's common stock on the date of grant of \$29.85. The performance criteria established for the PSUs granted in 2016 include both performance and market conditions. The grant-date value of the PSUs was determined based on the closing price of the Company's common stock on the date of grant and a discount related to the market condition, considering the probability of meeting the defined performance conditions.

Certain other of the Company's executives are eligible to receive unvested share awards at the end of one-year performance periods. The dollar value of share awards to be granted is based on the achievement of performance criteria pre-established annually by the Compensation Committee. The number of shares of common stock to be awarded is variable based on the closing price of the Company's stock on the date of grant; therefore, these awards are initially classified as liability instruments in the Company's consolidated balance sheets and compensation cost is recognized from the beginning of the performance period. The awards vest in equal installments over a period of three years from the date of grant.

Compensation cost related to performance based executive share-based awards is recognized during the performance period based on the probable outcome of the respective performance conditions. The total unrecognized compensation

cost of \$4.3 million for these executive share-based awards at June 30, 2016 will be recognized over a weighted average remaining period of 2.85 years.

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Note 10 Fair Value Measurements

Assets and liabilities measured at fair value on a recurring basis

Following is a description of the methodologies used to estimate the fair values of assets and liabilities measured at fair value on a recurring basis and the level within the fair value hierarchy in which those measurements are typically classified.

Investment securities available for sale—Fair value measurements are based on quoted prices in active markets when available; these measurements are classified within level 1 of the fair value hierarchy. These securities typically include U.S. Treasury securities and certain preferred stocks. If quoted prices in active markets are not available, fair values are estimated using quoted prices of securities with similar characteristics, quoted prices of identical securities in less active markets, discounted cash flow techniques, or matrix pricing models. These securities are generally classified within level 2 of the fair value hierarchy and include U.S. Government agency securities, U.S. Government agency and sponsored enterprise MBS, preferred stock investments for which level 1 valuations are not available, corporate debt securities, non-mortgage asset-backed securities, single family rental real estate-backed securities, certain private label residential MBS and CMOs, Re-Remics, private label commercial MBS, collateralized loan obligations and state and municipal obligations. Pricing of these securities is generally primarily spread driven. Observable inputs that may impact the valuation of these securities include benchmark yield curves, credit spreads, reported trades, dealer quotes, bids, issuer spreads, current rating, historical constant prepayment rates, historical voluntary prepayment rates, structural and waterfall features of individual securities, published collateral data, and for certain securities, historical constant default rates and default severities. Investment securities available for sale generally classified within level 3 of the fair value hierarchy include certain private label MBS and trust preferred securities. The Company typically values these securities using third-party proprietary pricing models, primarily discounted cash flow valuation techniques, which incorporate both observable and unobservable inputs. Unobservable inputs that may impact the valuation of these securities include risk adjusted discount rates, projected prepayment rates, projected default rates and projected loss severity.

The Company uses third-party pricing services in determining fair value measurements for investment securities. To obtain an understanding of the methodologies and assumptions used, management reviews written documentation provided by the pricing services, conducts interviews with valuation desk personnel and reviews model results and detailed assumptions used to value selected securities as considered necessary. Management has established a robust price challenge process that includes a review by the treasury front office of all prices provided on a monthly basis. Any price evidencing unexpected month over month fluctuations or deviations from expectations is challenged. If considered necessary to resolve any discrepancies, a price will be obtained from an additional independent valuation source. The Company does not typically adjust the prices provided, other than through this established challenge process. The results of price challenges are subject to review by executive management. The Company has also established a quarterly process whereby prices provided by its primary pricing service for a sample of securities are validated. Any price discrepancies are resolved based on careful consideration of the assumptions and inputs employed by each of the pricing sources.

Servicing rights—Commercial servicing rights are valued using a discounted cash flow methodology incorporating contractually specified servicing fees and market based assumptions about prepayments, discount rates, default rates and costs of servicing. Prepayment and default assumptions are based on historical industry data for loans with similar characteristics. Assumptions about costs of servicing are based on market convention. Discount rates are based on rates of return implied by observed trades of underlying loans in the secondary market. Fair value of residential MSRs is estimated using a discounted cash flow technique that incorporates market based assumptions including estimated prepayment speeds, contractual servicing fees, cost to service, discount rates, escrow account earnings, ancillary income, and estimated defaults. Due to the nature of the valuation inputs and the limited availability of market pricing, servicing rights are classified as level 3.

Derivative financial instruments—Interest rate swaps are predominantly traded in over-the-counter markets and, as such, values are determined using widely accepted discounted cash flow modeling techniques. These discounted cash flow models use projections of future cash payments and receipts that are discounted at mid-market rates. Observable inputs that may impact the valuation of these instruments include LIBOR swap rates and LIBOR forward yield curves. These fair value measurements are generally classified within level 2 of the fair value hierarchy.

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The following tables present assets and liabilities measured at fair value on a recurring basis at the dates indicated (in thousands):

	June 30, 2016			Total
	Level 1	Level 2	Level 3	
Investment securities available for sale:				
U.S. Treasury securities	\$5,017	\$—	\$—	\$5,017
U.S. Government agency and sponsored enterprise residential MBS	—	1,310,709	—	1,310,709
U.S. Government agency and sponsored enterprise commercial MBS	—	116,883	—	116,883
Re-Remics	—	61,775	—	61,775
Private label residential MBS and CMOs	—	386,602	131,156	517,758
Private label commercial MBS	—	1,380,883	—	1,380,883
Single family rental real estate-backed securities	—	807,662	—	807,662
Collateralized loan obligations	—	306,919	—	306,919
Non-mortgage asset-backed securities	—	175,545	—	175,545
Preferred stocks	64,787	11,394	—	76,181
State and municipal obligations	—	534,664	—	534,664
SBA securities	—	383,694	—	383,694
Other debt securities	—	3,450	4,292	7,742
Servicing rights	—	—	24,891	24,891
Derivative assets	—	61,471	—	61,471
Total assets at fair value	\$69,804	\$5,541,651	\$160,339	\$5,771,794
Derivative liabilities	\$—	\$152,493	\$—	\$152,493
Total liabilities at fair value	\$—	\$152,493	\$—	\$152,493

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	December 31, 2015			
	Level 1	Level 2	Level 3	Total
Investment securities available for sale:				
U.S. Treasury securities	\$4,997	\$—	\$—	\$4,997
U.S. Government agency and sponsored enterprise residential MBS	—	1,178,318	—	1,178,318
U.S. Government agency and sponsored enterprise commercial MBS	—	96,814	—	96,814
Re-Remics	—	89,691	—	89,691
Private label residential MBS and CMOs	—	403,729	140,883	544,612
Private label commercial MBS	—	1,218,740	—	1,218,740
Single family rental real estate-backed securities	—	636,705	—	636,705
Collateralized loan obligations	—	306,877	—	306,877
Non-mortgage asset-backed securities	—	56,500	—	56,500
Preferred stocks	82,613	596	—	83,209
State and municipal obligations	—	361,753	—	361,753
SBA securities	—	273,336	—	273,336
Other debt securities	—	3,455	4,532	7,987
Servicing rights	—	—	11,548	11,548
Derivative assets	—	34,345	4	34,349
Total assets at fair value	\$87,610	\$4,660,859	\$156,967	\$4,905,436
Derivative liabilities	\$—	\$69,524	\$—	\$69,524
Total liabilities at fair value	\$—	\$69,524	\$—	\$69,524

There were no transfers of financial assets between levels of the fair value hierarchy during the six months ended June 30, 2016 and 2015.

The following tables reconcile changes in the fair value of assets and liabilities measured at fair value on a recurring basis and classified in level 3 of the fair value hierarchy during the periods indicated (in thousands):

	Three Months Ended June 30,			Three Months Ended June 30,		
	2016			2015		
	Private Label Residential MBS	Other Debt Securities	Servicing Rights	Private Label Residential MBS	Other Debt Securities	Servicing Rights
Balance at beginning of period	\$135,094	\$4,330	\$24,844	\$162,984	\$4,700	\$—
Gains (losses) for the period included in:						
Net income	—	—	(1,611)	—	—	(620)
Other comprehensive income	902	(51)	—	(1,714)	82	—
Discount accretion	1,470	25	—	894	43	—
Purchases or additions	—	—	1,658	—	—	11,710
Sales	—	—	—	—	—	—
Settlements	(6,310)	(12)	—	(6,257)	(32)	—
Transfers into level 3	—	—	—	—	—	—
Transfers out of level 3	—	—	—	—	—	—
Balance at end of period	\$131,156	\$4,292	\$24,891	\$155,907	\$4,793	\$11,090

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	Six Months Ended June 30,			2015		
	2016			2015		
	Private Label Residential MBS	Other Debt Securities	Servicing Rights	Private Label Residential MBS	Other Debt Securities	Servicing Rights
Balance at beginning of period	\$ 140,883	\$ 4,532	\$ 20,017	\$ 168,077	\$ 4,918	\$ —
Gains (losses) for the period included in:						
Net income	—	—	(3,614)	—	—	(620)
Other comprehensive income	(527)	(267)	—	(2,824)	(150)	—
Discount accretion	3,081	52	—	2,603	72	—
Purchases or additions	—	—	8,488	—	—	11,710
Sales	—	—	—	—	—	—
Settlements	(12,281)	(25)	—	(11,949)	(47)	—
Transfers into level 3	—	—	—	—	—	—
Transfers out of level 3	—	—	—	—	—	—
Balance at end of period	\$ 131,156	\$ 4,292	\$ 24,891	\$ 155,907	\$ 4,793	\$ 11,090

Activity related to derivative assets and liabilities classified in level 3 of the fair value hierarchy was not significant during the periods reported above. Changes in the fair value of servicing rights are included in the consolidated statement of income line item "Other non-interest income." Changes in fair value include changes due to discount rates and valuation assumptions, as well as other changes such as runoff and the passage of time. The amount of unrealized losses included in earnings for the six months ended June 30, 2016 that were related to servicing assets held at June 30, 2016 totaled approximately \$1.3 million and were primarily due to changes in discount rates and valuation assumptions.

Securities for which fair value measurements are categorized in level 3 of the fair value hierarchy at June 30, 2016 consisted of pooled trust preferred securities with a fair value of \$4 million and private label residential MBS and CMOs with a fair value of \$131 million. The trust preferred securities are not material to the Company's financial statements. Private label residential MBS consisted of senior and mezzanine tranches collateralized by prime fixed rate and hybrid 1-4 single family residential mortgages originated before 2005, some of which contain option-arm features. Substantially all of these securities have variable rate coupons. Weighted average subordination levels at June 30, 2016 were 16.5%, 13.4% and 1.6% for investment grade, non-investment grade and option-arm securities, respectively. There were \$27 million of option-arm securities with a subordination level of zero at June 30, 2016.

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The following table provides information about the valuation techniques and unobservable inputs used in the valuation of private label residential MBS and CMOs falling within level 3 of the fair value hierarchy as of June 30, 2016 (dollars in thousands):

	Fair Value at June 30, 2016	Valuation Technique	Unobservable Input	Range (Weighted Average)
Investment grade	\$55,406	Discounted cash flow	Voluntary prepayment rate	1.53% - 24.00% (13.02%)
			Probability of default	0.00% - 13.29% (1.54%)
			Loss severity	0.00% - 81.31% (27.95%)
			Discount rate	2.61% - 5.57% (3.37%)
Non-investment grade	\$46,587	Discounted cash flow	Voluntary prepayment rate	0.30% - 40.07% (13.15%)
			Probability of default	0.00% - 4.34% (1.34%)
			Loss severity	0.00% - 71.46% (19.85%)
			Discount rate	2.54% - 25.92% (5.97%)
Option-arm (non-investment grade)	\$29,163	Discounted cash flow	Voluntary prepayment rate	3.51% - 3.51% (3.51%)
			Probability of default	3.26% - 3.26% (3.26%)
			Loss severity	57.88% - 57.88% (57.88%)
			Discount rate	3.28% - 13.60% (5.72%)

The significant unobservable inputs impacting the fair value measurement of private label residential MBS and CMOs include voluntary prepayment rates, probability of default, loss severity given default and discount rates. Generally, increases in probability of default, loss severity or discount rates would result in a lower fair value measurement. Alternatively, decreases in probability of default, loss severity or discount rates would result in a higher fair value measurement. For securities with less favorable credit characteristics, decreases in voluntary prepayment speeds may be interpreted as a deterioration in the overall credit quality of the underlying collateral and as such, lead to lower fair value measurements. The fair value measurements of those securities with higher levels of subordination will be less sensitive to changes in these unobservable inputs other than discount rates, while securities with lower levels of subordination will show a higher degree of sensitivity to changes in these unobservable inputs other than discount rates. Generally, a change in the assumption used for probability of default is accompanied by a directionally similar change in the assumption used for loss severity given default and a directionally opposite change in the assumption used for voluntary prepayment rate.

The following table provides information about the valuation techniques and significant unobservable inputs used in the valuation of servicing rights as of June 30, 2016 (dollars in thousands):

	Fair Value at June 30, 2016	Valuation Technique	Unobservable Input	Range (Weighted Average)
Residential MSRs	\$12,817	Discounted cash flow	Prepayment rate	4.46% - 22.39% (12.32%)
			Discount rate	9.38% - 9.44% (9.39%)

Commercial servicing rights \$12,074 Discounted cash flow Prepayment rate 0.94% - 10.35% (7.74%)
Discount rate 7.81% - 13.32% (11.64%)

Increases in prepayment rates or discount rates would result in lower fair value measurements and decreases in prepayment rates or discount rates would result in higher fair value measurements. Although the prepayment rate and the discount rate are not directly interrelated, they generally move in opposite directions.

Assets and liabilities measured at fair value on a non-recurring basis

Following is a description of the methodologies used to estimate the fair values of assets and liabilities that may be measured at fair value on a non-recurring basis, and the level within the fair value hierarchy in which those measurements are typically classified.

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Impaired loans, OREO and other repossessed assets - The carrying amount of collateral dependent impaired loans is typically based on the fair value of the underlying collateral, which may be real estate or other business assets, less estimated costs to sell. The carrying value of OREO is initially measured based on the fair value of the real estate acquired in foreclosure and subsequently adjusted to the lower of cost or estimated fair value, less estimated cost to sell. Fair values of real estate collateral are typically based on real estate appraisals which utilize market and income approaches to valuation incorporating both observable and unobservable inputs. When current appraisals are not available, the Company may use brokers' price opinions, home price indices or other available information about changes in real estate market conditions to adjust the latest appraised value available. These adjustments to appraised values may be subjective and involve significant management judgment. The fair value of repossessed assets or collateral consisting of other business assets is generally based on appraisals that use market approaches to valuation incorporating primarily unobservable inputs. Fair value measurements related to collateral dependent impaired loans, OREO and other repossessed assets are classified within level 3 of the fair value hierarchy.

The following tables present the carrying value of assets for which non-recurring changes in fair value have been recorded for the periods indicated (in thousands):

	June 30, 2016				Losses from Fair Value Changes	
	Level 1	Level 2	Level 3	Total	Three Months Ended June 30, 2016	Six Months Ended June 30, 2016
OREO and repossessed assets	\$-\$	-\$7,345	\$7,345	\$7,345	\$(360)	\$(368)
Impaired loans	\$-\$	-\$33,672	\$33,672	\$33,672	\$(6,278)	\$(9,944)
					Gains (Losses) from Fair Value Changes	
					Three Months Ended June 30, 2015	Six Months Ended June 30, 2015
OREO	\$-\$	-\$6,027	\$6,027	\$173	\$(392)	\$(392)
Impaired loans	\$-\$	-\$31,676	\$31,676	\$(2,111)	\$(9,390)	\$(9,390)
Residential MSRs	\$-\$	-\$5,355	\$5,355	\$165	\$—	\$—

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The following table presents the carrying value and fair value of financial instruments and the level within the fair value hierarchy in which those measurements are classified at the dates indicated (dollars in thousands):

	Level	June 30, 2016		December 31, 2015	
		Carrying Value	Fair Value	Carrying Value	Fair Value
Assets:					
Cash and cash equivalents	1	\$359,674	\$359,674	\$267,500	\$267,500
Investment securities available for sale	1/2/3	5,685,432	5,685,432	4,859,539	4,859,539
Investment securities held to maturity	3	10,000	10,000	10,000	10,000
Non-marketable equity securities	2	271,734	271,734	219,997	219,997
Loans held for sale	2	32,582	36,100	47,410	50,080
Loans:					
Covered	3	713,140	1,364,918	804,672	1,535,688
Non-covered	3	17,370,744	17,694,417	15,706,103	15,925,405
FDIC Indemnification asset	3	633,744	320,324	739,880	361,364
Accrued interest receivable	2	61,936	61,936	47,654	47,654
Derivative assets	2	61,471	61,471	34,349	34,349
Liabilities:					
Demand, savings and money market deposits	2	\$12,735,551	\$12,735,551	\$12,330,410	\$12,330,410
Time deposits	2	5,496,502	5,522,260	4,608,091	4,630,572
FHLB advances	2	4,943,903	4,949,245	4,008,464	4,008,621
Notes and other borrowings	2	402,762	428,234	402,545	392,219
Accrued interest payable	2	6,864	6,864	5,638	5,638
Derivative liabilities	2	152,493	152,493	69,524	69,524

The following methods and assumptions were used to estimate the fair value of each class of financial instruments, other than those described above:

The carrying amounts of certain financial instruments approximate fair value due to their short-term nature and generally negligible credit risk. These financial instruments include cash and cash equivalents, accrued interest receivable and accrued interest payable.

Investment securities held to maturity

Investment securities held to maturity includes one bond issued by the State of Israel, with fair value obtained from a third party pricing service.

Non-marketable equity securities

Non-marketable equity securities include FHLB and FRB stock. There is no market for these securities, which can be liquidated only by redemption by the issuer. These securities are valued at par, which has historically represented the redemption price and is therefore considered to approximate fair value.

Loans held for sale

The fair value of the portion of small business loans guaranteed by U.S. Government agencies being held for sale is estimated using pricing on recent sales of similar loans by the Company in active markets.

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ACI and non-ACI loans

Fair values are estimated based on a discounted cash flow analysis. Estimates of future cash flows incorporate various factors that may include the type of loan and related collateral, estimated collateral values, estimated default probability and loss severity given default, internal risk rating, whether the interest rate is fixed or variable, term of loan and whether or not the loan is amortizing. The fair values of loans accounted for in pools are estimated on a pool basis. Other loans may be grouped based on risk characteristics and fair value estimated in the aggregate when applying discounted cash flow valuation techniques. Discount rates for residential loans are based on observable fixed income market data for products with similar credit characteristics. Discount rates for commercial loans reflect indicative yields based on pricing obtained in the commercial loan sale in 2014, adjusted for changes in market rates subsequent to the sale.

New loans

Fair values of residential loans are estimated using a discounted cash flow analysis with discount rates based on yields at which similar loans are trading in the secondary market, which reflect assumptions about credit risk. Fair values of commercial and consumer loans are estimated using a discounted cash flow analysis with discount rates based on interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. The ALLL related to commercial and consumer loans is considered a reasonable estimate of the required adjustment to fair value to reflect the impact of credit risk. This estimate may not represent an exit value as defined in ASC 820.

FDIC indemnification asset

The fair value of the FDIC indemnification asset has been estimated using a discounted cash flow technique incorporating assumptions about the timing and amount of future projected cash payments from the FDIC related to the resolution of covered assets. The factors that impact estimates of future cash flows are similar to those impacting estimated cash flows from covered loans. The discount rate is determined by adjusting the risk free rate to incorporate uncertainty in the estimate of the timing and amount of future cash flows and illiquidity.

Deposits

The fair value of demand deposits, savings accounts and money market deposits is the amount payable on demand at the reporting date. The fair value of time deposits is estimated using a discounted cash flow technique based on rates currently offered for deposits of similar remaining maturities.

FHLB advances

Fair value is estimated by discounting contractual future cash flows using the current rate at which borrowings with similar terms and remaining maturities could be obtained by the Company.

Senior notes

Fair value is estimated based on quoted prices of identical securities in less active markets.

Note 11 Commitments and Contingencies

The Company issues off-balance sheet financial instruments to meet the financing needs of its customers. These financial instruments include commitments to fund loans, unfunded commitments under existing lines of credit, and commercial and standby letters of credit. These commitments expose the Company to varying degrees of credit and market risk which are essentially the same as those involved in extending loans to customers, and are subject to the same credit policies used in underwriting loans. Collateral may be obtained based on the Company's credit evaluation of the counterparty. The Company's maximum exposure to credit loss is represented by the contractual amount of these commitments. Unfunded commitments under lines of credit include \$14.3 million available under non-cancellable commitments in effect at the date of the FSB Acquisition, which are covered under the Single Family Shared-Loss Agreement if prescribed conditions are met.

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BANKUNITED, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED
 June 30, 2016

Commitments to fund loans

These are agreements to lend funds to customers as long as there is no violation of any condition established in the contract. Commitments to fund loans generally have fixed expiration dates or other termination clauses and may require payment of a fee. Many of these commitments are expected to expire without being funded and, therefore, the total commitment amounts do not necessarily represent future liquidity requirements.

Unfunded commitments under lines of credit

Unfunded commitments under lines of credit include commercial, commercial real estate, home equity and consumer lines of credit to existing customers. Some of these commitments may mature without being fully funded.

Commercial and standby letters of credit

Letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. These letters of credit are primarily issued to support trade transactions or guarantee arrangements. Fees collected on standby letters of credit represent the fair value of those commitments. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

Total lending related commitments outstanding at June 30, 2016 were as follows (in thousands):

Commitments to fund loans	\$651,824
Commitments to purchase loans	162,515
Unfunded commitments under lines of credit	1,715,763
Commercial and standby letters of credit	74,330
	\$2,604,432

Legal Proceedings

The Company is involved as plaintiff or defendant in various legal actions arising in the normal course of business. In the opinion of management, based upon advice of legal counsel, the likelihood is remote that the impact of these proceedings, either individually or in the aggregate, would be material to the Company's consolidated financial position, results of operations or cash flows.

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

The following discussion and analysis is intended to focus on significant changes in the financial condition and results of operations of the Company during the three and six months ended June 30, 2016 and should be read in conjunction with the consolidated financial statements and notes thereto included in this Quarterly Report on Form 10-Q and BKU's 2015 Annual Report on Form 10-K for the year ended December 31, 2015 (the "2015 Annual Report on Form 10-K").

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 that reflect the Company's current views with respect to, among other things, future events and financial performance. Words such as "anticipates," "expects," "intends," "plans," "believes," "seeks," "estimates" similar expressions identify forward-looking statements. These forward-looking statements are based on the historical performance of the Company or on the Company's current plans, estimates and expectations. The inclusion of this forward-looking information should not be regarded as a representation by the Company that the future plans, estimates or expectations so contemplated will be achieved. Such forward-looking statements are subject to various risks and uncertainties and assumptions relating to the Company's operations, financial results, financial condition, business prospects, growth strategy and liquidity. If one or more of these or other risks or uncertainties materialize, or if the Company's underlying assumptions prove to be incorrect, the Company's actual results may vary materially from those indicated in these statements. A number of important factors could cause actual results to differ materially from those indicated by the forward-looking statements, including, but not limited to, the risk factors described in Part I, Item 1A of the 2015 Annual Report on Form 10-K. The Company does not undertake any obligation to publicly update or review any forward looking statement, whether as a result of new information, future developments or otherwise.

Overview

Quarterly Highlights

In evaluating our financial performance, we consider the level of and trends in net interest income, the net interest margin, levels and composition of non-interest income and non-interest expense, performance ratios such as the return on average assets and return on average equity and asset quality ratios, particularly for the non-covered portfolio, including the ratio of non-performing loans to total loans, non-performing assets to total assets, and portfolio delinquency and charge-off trends. We consider growth in the loan and deposit portfolios by region and product type, trends in funding mix and cost of funds. We analyze these ratios and trends against our own historical performance, our budgeted performance and the financial condition and performance of comparable financial institutions.

Performance highlights include:

Net income for the quarter ended June 30, 2016 was \$56.7 million, or \$0.52 per diluted share, compared to \$46.6 million, or \$0.43 per diluted share for the quarter ended June 30, 2015. For the six months ended June 30, 2016, net income was \$111.6 million, or \$1.03 per diluted share compared to \$93.1 million, or \$0.87 per diluted share. Earnings for the six months ended June 30, 2016 generated a return on average stockholders' equity of 9.79% and a return on average assets of 0.90%.

Net interest income increased by \$33.3 million to \$214.3 million for the quarter ended June 30, 2016 from \$181.0 million for the quarter ended June 30, 2015. The net interest margin, calculated on a tax-equivalent basis, decreased to 3.75% for the three months ended June 30, 2016 from 3.95% for the three months ended June 30, 2015. The origination of new loans at current market yields lower than those on loans acquired in the FSB Acquisition and the cost of the senior notes issued in November 2015 were the most significant contributors to the decline in the net interest margin.

Total interest earning assets increased by \$1.6 billion during the second quarter of 2016. New loans and leases, including equipment under operating lease, grew by \$1.2 billion during the quarter. For the six months ended June 30, 2016, new loans and leases increased by \$1.7 billion.

Asset quality remained strong. At June 30, 2016, 97.8% of the new commercial loan portfolio was rated "pass" and substantially all of the new residential portfolio was current. The ratio of non-performing, non-covered loans to total non-covered loans was 0.46% and the ratio of non-covered non-performing assets to total assets was 0.32% at June 30, 2016.

Total deposits grew by \$718 million for the second quarter of 2016 to \$18.2 billion. The average cost of total deposits increased to 0.66% for the three months ended June 30, 2016 from 0.60% for the three months ended June 30, 2015.

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The Company's capital ratios exceeded all regulatory "well capitalized" guidelines, with a Tier 1 leverage ratio of 8.7%, a CET1 risk-based capital ratio and Tier 1 risk-based capital ratio of 11.8% and a Total risk-based capital ratio of 12.6% at June 30, 2016.

Book value and tangible book value per common share grew to \$22.38 and \$21.63, respectively, at June 30, 2016.

Results of Operations

Net Interest Income

Net interest income is the difference between interest earned on interest earning assets and interest incurred on interest bearing liabilities and is the primary driver of core earnings. Net interest income is impacted by the relative mix of interest earning assets and interest bearing liabilities, the ratio of interest earning assets to total assets and of interest bearing liabilities to total funding sources, movements in market interest rates, levels of non-performing assets and pricing pressure from competitors.

The mix of interest earning assets is influenced by loan demand, market and competitive conditions in our primary lending markets and by management's continual assessment of the rate of return and relative risk associated with various classes of earning assets. The mix of interest bearing liabilities is influenced by management's assessment of the desire for lower cost funding sources weighed against relationships with customers and growth requirements and is impacted by competition for deposits in the Company's markets and the availability and pricing of other sources of funds.

Net interest income is also impacted by the accounting for ACI loans and to a declining extent, the accretion of fair value adjustments recorded in conjunction with the FSB Acquisition. ACI loans were initially recorded at fair value, measured based on the present value of expected cash flows. The excess of expected cash flows over carrying value, known as accretable yield, is recognized as interest income over the lives of the underlying loans. The positive impact of accretion related to ACI loans on the net interest margin and the interest rate spread is expected to continue to decline as ACI loans comprise a declining percentage of total loans. The proportion of total loans represented by ACI loans is declining as the ACI loans are resolved and new loans are added to the portfolio. ACI loans represented 3.7% and 6.1% of total loans, including premiums, discounts and deferred fees and costs, at June 30, 2016 and 2015, respectively. As this trend continues, we expect our net interest margin and interest rate spread to continue to decrease, although at a declining rate.

The impact of accretion and ACI loan accounting on net interest income makes it difficult to compare our net interest margin and interest rate spread to those reported by other financial institutions.

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The following tables present, for the periods indicated, information about (i) average balances, the total dollar amount of taxable equivalent interest income from earning assets and the resultant average yields; (ii) average balances, the total dollar amount of interest expense on interest bearing liabilities and the resultant average rates; (iii) net interest income; (iv) the interest rate spread; and (v) the net interest margin. Non-accrual and restructured loans are included in the average balances presented in this table; however, interest income foregone on non-accrual loans is not included. Interest income, yields, spread and margin have been calculated on a tax-equivalent basis for loans and investment securities that are exempt from federal income taxes, at a federal tax rate of 35.0% (dollars in thousands):

	Three Months Ended June 30,					
	2016			2015		
	Average Balance	Interest ⁽¹⁾	Yield/ Rate ⁽¹⁾ (2)	Average Balance	Interest ⁽¹⁾	Yield/ Rate ⁽¹⁾ (2)
Assets:						
Interest earning assets:						
Loans	\$17,627,385	\$226,106	5.14%	\$13,765,655	\$187,730	5.46%
Investment securities ⁽³⁾	5,594,891	39,442	2.82%	4,573,148	27,118	2.37%
Other interest earning assets	534,119	3,124	2.35%	452,272	2,340	2.07%
Total interest earning assets	23,756,395	268,672	4.53%	18,791,075	217,188	4.63%
Allowance for loan and lease losses	(131,061)			(104,402)		
Non-interest earning assets	1,950,846			1,948,382		
Total assets	\$25,576,180			\$20,635,055		
Liabilities and Stockholders' Equity:						
Interest bearing liabilities:						
Interest bearing demand deposits	\$1,435,252	2,115	0.59%	\$1,121,215	1,290	0.46%
Savings and money market deposits	8,152,354	12,314	0.61%	6,602,690	8,927	0.54%
Time deposits	5,189,699	14,404	1.12%	4,190,187	11,638	1.11%
Total interest bearing deposits	14,777,305	28,833	0.78%	11,914,092	21,855	0.74%
FHLB advances	4,715,960	11,999	1.02%	3,599,635	9,492	1.06%
Notes and other borrowings	402,751	5,322	5.31%	11,307	309	10.96%
Total interest bearing liabilities	19,896,016	46,154	0.93%	15,525,034	31,656	0.82%
Non-interest bearing demand deposits	2,943,378			2,675,306		
Other non-interest bearing liabilities	415,071			285,760		
Total liabilities	23,254,465			18,486,100		
Stockholders' equity	2,321,715			2,148,955		
Total liabilities and stockholders' equity	\$25,576,180			\$20,635,055		
Net interest income		\$222,518			\$185,532	
Interest rate spread			3.60%			3.81%
Net interest margin			3.75%			3.95%

On a tax-equivalent basis. The tax-equivalent adjustment for tax-exempt loans was \$5.5 million and \$3.7 million, (1) and the tax-equivalent adjustment for tax-exempt investment securities was \$2.7 million and \$0.8 million, for the three months ended June 30, 2016 and 2015, respectively.

(2) Annualized.

(3) At fair value except for securities held to maturity.

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	Six Months Ended June 30,			2015		
	2016			2015		
	Average Balance	Interest ⁽¹⁾	Yield/ Rate ⁽¹⁾ (2)	Average Balance	Interest ⁽¹⁾	Yield/ Rate ⁽¹⁾ (2)
Assets:						
Interest earning assets:						
Loans	\$ 17,172,942	\$ 445,733	5.20%	\$ 13,232,955	\$ 362,633	5.50 %
Investment securities ⁽³⁾	5,375,775	75,217	2.80%	4,529,279	56,115	2.48 %
Other interest earning assets	517,978	5,814	2.26%	469,989	4,623	1.98 %
Total interest earning assets	23,066,695	526,764	4.58%	18,232,223	423,371	4.66 %
Allowance for loan and lease losses	(130,245)			(101,149)		
Non-interest earning assets	1,978,162			1,955,576		
Total assets	\$ 24,914,612			\$ 20,086,650		
Liabilities and Stockholders' Equity:						
Interest bearing liabilities:						
Interest bearing demand deposits	\$ 1,292,458	3,916	0.61%	\$ 1,016,051	2,333	0.46 %
Savings and money market deposits	8,130,074	24,311	0.60%	6,360,315	16,687	0.53 %
Time deposits	4,979,686	27,232	1.10%	4,116,330	22,839	1.12 %
Total interest bearing deposits	14,402,218	55,459	0.77%	11,492,696	41,859	0.73 %
FHLB advances	4,473,793	24,016	1.08%	3,480,322	18,332	1.06 %
Notes and other borrowings	403,023	10,645	5.31%	11,212	620	11.15%
Total interest bearing liabilities	19,279,034	90,120	0.94%	14,984,230	60,811	0.82 %
Non-interest bearing demand deposits	2,926,585			2,708,808		
Other non-interest bearing liabilities	417,467			274,845		
Total liabilities	22,623,086			17,967,883		
Stockholders' equity	2,291,526			2,118,767		
Total liabilities and stockholders' equity	\$ 24,914,612			\$ 20,086,650		
Net interest income		\$ 436,644			\$ 362,560	
Interest rate spread			3.64%			3.84 %
Net interest margin			3.79%			3.99 %

On a tax-equivalent basis. The tax-equivalent adjustment for tax-exempt loans was \$10.5 million and \$7.2 million, (1) and the tax-equivalent adjustment for tax-exempt investment securities was \$5.0 million and \$1.6 million, for the six months ended June 30, 2016 and 2015, respectively.

(2) Annualized.

(3) At fair value except for securities held to maturity.

Three months ended June 30, 2016 compared to three months ended June 30, 2015

Net interest income, calculated on a tax-equivalent basis, was \$222.5 million for the three months ended June 30, 2016 compared to \$185.5 million for the three months ended June 30, 2015, an increase of \$37.0 million. The increase in net interest income was comprised of an increase in tax-equivalent interest income of \$51.5 million, offset by an increase in interest expense of \$14.5 million.

The increase in tax-equivalent interest income was comprised primarily of a \$38.4 million increase in interest income from loans and a \$12.3 million increase in interest income from investment securities.

Increased interest income from loans was attributable to a \$3.9 billion increase in the average balance outstanding partially offset by a 0.32% decrease in the tax-equivalent yield to 5.14% for the three months ended June 30, 2016 from 5.46% for the three months ended June 30, 2015. Offsetting factors contributing to the overall decline in the

yield on loans included:

New loans originated at lower market rates of interest comprised a greater percentage of the portfolio for the three months ended June 30, 2016 than for 2015. New loans represented 95.4% of the average balance of loans outstanding for the three months ended June 30, 2016 compared to 92.5% for the three months ended June 30, 2015. We expect the impact of growth of the new loan portfolio to lead to further declines in the overall yield on loans.

The tax-equivalent yield on new loans remained relatively steady at 3.51% for the three months ended June 30, 2016, compared to 3.52% for the three months ended June 30, 2015.

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Interest income on loans acquired in the FSB Acquisition totaled \$78.9 million and \$75.7 million for the three months ended June 30, 2016 and 2015, respectively. The tax-equivalent yield on those loans increased to 39.38% for the three months ended June 30, 2016 from 29.31% for the three months ended June 30, 2015. The increase in the yield on loans acquired in the FSB Acquisition resulted primarily from improvements in the timing and amount of expected cash flows and corresponding transfers from non-accretable difference to accretable yield for ACI loans.

The average balance of investment securities increased by \$1.0 billion for the three months ended June 30, 2016 from the comparable period in 2015 while the tax-equivalent yield increased to 2.82% for the three months ended June 30, 2016 from 2.37% for three months ended June 30, 2015. The increase in tax-equivalent yield reflects (i) investments in longer duration higher-yielding state and municipal obligations, (ii) resetting of rates on floating-rate securities following the FRB's interest rate increase in the fourth quarter of 2015 and (iii) opportunistic purchases of securities with wider spreads.

The components of the increase in interest expense for the three months ended June 30, 2016 as compared to the three months ended June 30, 2015 were a \$7.0 million increase in interest expense on deposits, a \$2.5 million increase in interest expense on FHLB advances and a \$5.0 million increase in interest expense on notes and other borrowings. The most significant factor contributing to the increase in interest expense on deposits was an increase of \$2.9 billion in average interest bearing deposits. The average cost of interest bearing deposits increased to 0.78% for the three months ended June 30, 2016 from 0.74% for the three months ended June 30, 2015. This increase reflected increases in the cost of interest bearing demand deposits and in savings and money market deposits of 0.13% and 0.07%, respectively. These increases were generally driven by growth of deposits in competitive markets.

The increase in interest expense on FHLB advances was driven by an increase in the average balance of \$1.1 billion, offset to a small degree by a decrease in the average rate paid on these borrowings. The average rate paid on FHLB advances decreased to 1.02% for the three months ended June 30, 2016 from 1.06% for the three months ended June 30, 2015, reflecting a reduction in the average rate paid on related pay-fixed interest rate swaps. The increase in interest expense on notes and other borrowings was primarily the result of the issuance of \$400 million in senior notes in November 2015.

The net interest margin, calculated on a tax-equivalent basis, for the three months ended June 30, 2016 was 3.75% as compared to 3.95% for the three months ended June 30, 2015. The interest rate spread decreased to 3.60% for the three months ended June 30, 2016 from 3.81% for the three months ended June 30, 2015. The declines in net interest margin and interest rate spread resulted primarily from lower yields on loans and the cost of the senior notes, as discussed above. We expect the net interest margin and interest rate spread to continue to decline, although at a decreasing rate, as new loans originated at lower current market rates of interest continue to grow and higher yielding loans acquired in the FSB Acquisition are collected or resolved.

Six months ended June 30, 2016 compared to six months ended June 30, 2015

Net interest income, calculated on a tax-equivalent basis, was \$436.6 million for the six months ended June 30, 2016 compared to \$362.6 million for the six months ended June 30, 2015, an increase of \$74.1 million. The increase in net interest income was comprised of an increase in tax-equivalent interest income of \$103.4 million, offset by an increase in interest expense of \$29.3 million.

The increase in tax-equivalent interest income was comprised primarily of an \$83.1 million increase in interest income from loans and a \$19.1 million increase in interest income from investment securities.

Increased interest income from loans was attributable to a \$3.9 billion increase in the average balance outstanding partially offset by a 0.30% decrease in the tax-equivalent yield to 5.20% for the six months ended June 30, 2016 from 5.50% for the six months ended June 30, 2015.

The average balance of investment securities increased by \$846 million for the six months ended June 30, 2016 from the comparable period in 2015 while the tax-equivalent yield increased to 2.80% for the six months ended June 30, 2016 from 2.48% for six months ended June 30, 2015.

The components of the increase in interest expense for the six months ended June 30, 2016 as compared to the six months ended June 30, 2015 were a \$13.6 million increase in interest expense on deposits, a \$5.7 million increase in interest expense on FHLB advances and a \$10.0 million increase in interest expense on notes and other borrowings,

reflecting the senior notes issued in November 2015.

The most significant factor contributing to the increase in interest expense on deposits was an increase of \$2.9 billion in average interest bearing deposits. The average cost of interest bearing deposits increased by 0.04% to 0.77% for the six months ended June 30, 2016 from 0.73% for the six months ended June 30, 2015. This increase reflected increases in the cost of

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interest bearing demand deposits and in savings and money market deposits of 0.15% and 0.07%, respectively, partially offset by a decrease of 0.02% in the cost of time deposits.

Factors contributing to the change in tax-equivalent yields on loans and investment securities and the increase in deposit costs were consistent with those for the three month periods discussed above.

The increase in interest expense on FHLB advances was driven by an increase in the average balance of \$1.0 billion, coupled with an increase in the average rate paid on these borrowings. The average rate paid on FHLB advances increased by 0.02% to 1.08% for the six months ended June 30, 2016 from 1.06% for the six months ended June 30, 2015, reflecting a limited extension of maturities.

The net interest margin, calculated on a tax-equivalent basis, for the six months ended June 30, 2016 was 3.79% as compared to 3.99% for the six months ended June 30, 2015. The interest rate spread decreased to 3.64% for the six months ended June 30, 2016 from 3.84% for the six months ended June 30, 2015. The declines in net interest margin and interest rate spread resulted primarily from the same factors as for the three months periods discussed above.

Provision for Loan Losses

The provision for loan losses is the amount of expense that, based on our judgment, is required to maintain the ALLL at an adequate level to absorb probable losses inherent in the loan portfolio at the balance sheet date and that, in management's judgment, is appropriate under GAAP. The determination of the amount of the ALLL is complex and involves a high degree of judgment and subjectivity. Our determination of the amount of the allowance and corresponding provision for loan losses considers ongoing evaluations of the credit quality of and level of credit risk inherent in various segments of the loan portfolio and of individually significant credits, levels of non-performing loans and charge-offs, statistical trends and economic and other relevant factors. See "Analysis of the Allowance for Loan and Lease Losses" below for more information about how we determine the appropriate level of the allowance. For the three months ended June 30, 2016 and 2015, we recorded provisions for loan losses of \$14.3 million and \$8.4 million, respectively, related to new loans. For the six months ended June 30, 2016 and 2015, we recorded provisions for loan losses of \$18.7 million and \$17.0 million, respectively, related to new loans. The amount of the provision is impacted by loan growth, portfolio mix, historical loss rates, the level of charge-offs and specific reserves for impaired loans, and management's evaluation of qualitative factors in the determination of general reserves. See the section entitled "Analysis of the Allowance for Loan and Lease Losses" below for further discussion.

An ALLL is established related to ACI loans when quarterly evaluations of expected cash flows indicate it is probable that the Company will be unable to collect all of the cash flows expected at acquisition plus any additional cash flows expected to be collected arising from changes in estimate after acquisition. An allowance for non-ACI loans is established if factors considered relevant by management indicate that additional losses have arisen on non-ACI loans subsequent to the FSB Acquisition.

As discussed below in the section entitled "Non-interest income," the impact on our results of operations of any provision for (recovery of) loan losses on covered loans is significantly mitigated by the corresponding impact on the FDIC indemnification asset, recorded in non-interest income.

Non-Interest Income

The Company reported non-interest income of \$28.9 million and \$21.1 million for the three months ended June 30, 2016 and 2015, respectively. Non-interest income was \$52.1 million and \$41.8 million for the six months ended June 30, 2016 and 2015, respectively. Although the amounts have declined as a percent of total non-interest income, a significant portion of our non-interest income has historically related to transactions in the covered assets. We have broken out the significant categories of non-interest income that relate to covered assets in the table below, to assist in the comparison of the amount and composition of our non-interest income with that of other financial institutions.

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The following table presents a comparison of the categories of non-interest income for the periods indicated (in thousands):

	Three Months		Six Months Ended	
	Ended June 30,		June 30,	
	2016	2015	2016	2015
Income from resolution of covered assets, net	\$9,545	\$13,743	\$17,543	\$28,897
Net loss on FDIC indemnification	(4,114)	(16,771)	(10,403)	(37,036)
Gain (loss) on sale of covered loans, net	(4,151)	7,417	(4,863)	17,423
Mortgage insurance income, modification incentives and expenses reimbursed, net	436	885	252	2,560
Non-interest income related to the covered assets	1,716	5,274	2,529	11,844
Service charges and fees	4,796	4,492	9,358	8,943
Gain on sale of non-covered loans	3,248	806	5,450	966
Gain on investment securities available for sale, net	3,858	1,128	7,057	3,150
Lease financing	10,974	7,044	21,574	13,281
Other non-interest income	4,265	2,314	6,087	3,615
	\$28,857	\$21,058	\$52,055	\$41,799

Non-interest income related to transactions in the Covered assets

The consolidated financial statements reflect the impact of gains or losses arising from transactions in the covered assets. The balance of the FDIC indemnification asset is reduced or increased as a result of decreases or increases in cash flows expected to be received from the FDIC related to these gains or losses. When these transaction gains or losses are recorded, we also record an offsetting amount in the consolidated statement of income line item "Net loss on FDIC indemnification." This line item includes the significantly mitigating impact of FDIC indemnification related to the following types of transactions in covered assets:

- gains or losses from the resolution of covered assets;
- provisions for (recoveries of) losses on covered loans;
- gains or losses on the sale of covered loans; and
- gains or losses on covered OREO.

Each of these types of transactions is discussed further below.

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 resolution of the loans and the carrying value of the loans is recorded in the consolidated statement of income line item "Income from resolution of covered assets, net." Both gains and losses on individual resolutions are included in this line item. 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. These additions to or reductions in amounts recoverable from the FDIC related to the resolution of covered loans are recorded in non-interest income in the line item "Net loss on FDIC indemnification" and reflected as corresponding increases or decreases in the FDIC indemnification asset. The amount of income or loss recorded in any period will be impacted by the amount of covered loans resolved, the amount of consideration received, and our ability to accurately project cash flows from ACI loans in future periods.

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The following table provides further detail of the components of income from resolution of covered assets, net, for the periods indicated (in thousands):

	Three Months		Six Months Ended	
	Ended June 30,		June 30,	
	2016	2015	2016	2015
Payments in full	\$9,386	\$13,288	\$17,419	\$25,584
Foreclosures	(46)	401	174	261
Short sales	27	62	(134)	202
Charge-offs	25	(8)	(74)	(441)
Recoveries	153	—	158	3,291
Income from resolution of covered assets, net	\$9,545	\$13,743	\$17,543	\$28,897

The decrease in income for the three and six months ended June 30, 2016 compared to the same periods in 2015 resulted primarily from decreases in income from residential paid in full resolutions. In addition, there was a decrease in recoveries on commercial loans for the six months ended June 30, 2016 compared to the same period in 2015.

The decreases in income from payments in full for the three and six months ended June 30, 2016 compared to the three and six months ended June 30, 2015 reflected decreases in resolutions and average income per resolution.

Average income per resolution declined in part due to updated cash flow forecasts, reflecting additional history with the performance of covered loans.

Under the terms of the Purchase and Assumption Agreement with the FDIC, the Bank may sell up to 2.5% of the covered loans based on UPB at the date of the FSB Acquisition, or approximately \$280 million, on an annual basis without prior consent of the FDIC. Any losses incurred from such loan sales are covered under the Single Family Shared-Loss Agreement. Any loan sale in excess of this stipulated annual threshold requires approval from the FDIC to be eligible for loss share coverage. However, if the Bank seeks to sell covered loans in excess of the 2.5% threshold in the nine months prior to the stated termination date of loss share coverage (May 21, 2019 for covered residential loans) and the FDIC refuses to consent, the Single Family Shared-Loss Agreement will be extended for two additional years with respect to the loans requested to be included in such sales. The Bank will then have the right to sell all or any portion of such loans without FDIC consent at any time within the nine months prior to the extended termination date, and any losses incurred will be covered under the Single Family Shared-Loss Agreement. This final sale mechanism, if exercised, ensures no residual credit risk in our covered loan portfolio that would otherwise arise from credit losses occurring after the termination date of the Single Family Shared-Loss Agreement.

The following table summarizes the impact of the sale of covered loans for the periods indicated (in thousands):

	Three Months		Six Months Ended	
	Ended June 30,		June 30,	
	2016	2015	2016	2015
Gain (loss) on sale of covered loans	\$(4,151)	\$7,417	\$(4,863)	\$17,423
Net gain (loss) on FDIC indemnification	3,363	(5,928)	3,932	(14,046)
Net impact on pre-tax earnings	\$(788)	\$1,489	\$(931)	\$3,377

Pricing received on the sale of covered loans may vary based on (i) market conditions, including the interest rate environment, the amount of capital seeking investment and the secondary supply of loans with a particular performance history or collateral type, (ii) the type and quality of collateral, (iii) the performance history of loans included in the sale and (iv) whether or not the loans have been modified. The decline in results of these sales for the three and six months ended June 30, 2016 from the comparable periods in 2015 related primarily to the characteristics of the loans sold and the dynamics of secondary market demand for these assets. We anticipate that we will continue to exercise our right to sell covered loans on a quarterly basis in the future.

Additional impairment arising since the FSB Acquisition related to covered loans is recorded in earnings through the provision for losses on covered loans. Under the terms of the Loss Sharing Agreements, the Company is entitled to recover from the FDIC a portion of losses on these loans; therefore, the discounted amount of additional expected cash flows from the FDIC related to these losses is recorded in non-interest income in the line item "Net loss on FDIC indemnification" and reflected as a corresponding increase in the FDIC indemnification asset. Alternatively, a recovery

of the provision for loan losses related to covered loans results in a reduction in the amounts the Company expects to recover from the FDIC and a

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corresponding reduction in the FDIC indemnification asset and in non-interest income, reflected in the line item "Net loss on FDIC indemnification."

The Company records impairment charges related to declines in the net realizable value of OREO properties subject to the Loss Sharing Agreements and recognizes additional gains or losses upon the eventual sale of such OREO properties. These amounts are included in other non-interest expense in the consolidated financial statements. The estimated increase or reduction in amounts recoverable from the FDIC with respect to these gains and losses is reflected as an increase or decrease in the FDIC indemnification asset and in non-interest income in the line item "Net loss on FDIC indemnification."

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,					
	2016			2015		
	Transaction Income (Loss)	Net Loss on FDIC Indemnification	Net Impact on Pre-tax Earnings	Transaction Income (Loss)	Net Loss on FDIC Indemnification	Net Impact on Pre-tax Earnings
Recovery of (provision for) losses on covered loans ⁽¹⁾	\$44	\$ (36)	\$ 8	\$(27)	\$ 22	\$(5)
Income from resolution of covered assets, net	9,545	(7,636)	1,909	13,743	(10,909)	2,834
Gain (loss) on sale of covered loans	(4,151)	3,363	(788)	7,417	(5,928)	1,489
Loss on covered OREO	(243)	195	(48)	(222)	44	(178)
	\$5,195	\$ (4,114)	\$ 1,081	\$20,911	\$ (16,771)	\$ 4,140
	Six Months Ended June 30,					
	2016			2015		
	Transaction Income (Loss)	Net Loss on FDIC Indemnification	Net Impact on Pre-tax Earnings	Transaction Income (Loss)	Net Loss on FDIC Indemnification	Net Impact on Pre-tax Earnings
Recovery of losses on covered loans ⁽¹⁾	\$801	\$ (639)	\$ 162	\$473	\$ (380)	\$ 93
Income from resolution of covered assets, net	17,543	(14,034)	3,509	28,897	(23,031)	5,866
Gain (loss) on sale of covered loans	(4,863)	3,932	(931)	17,423	(14,046)	3,377
Loss on covered OREO	(405)	338	(67)	(693)	421	(272)
	\$13,076	\$ (10,403)	\$ 2,673	\$46,100	\$ (37,036)	\$ 9,064

Transaction income (loss) for the three and six months ended June 30, 2016 and 2015 includes recoveries of \$101 (1) thousand, \$127 thousand, \$18 thousand and \$67 thousand, respectively, related to unfunded loan commitments included in other non-interest expense in the accompanying consolidated statements of income.

Other components of non-interest income

The increases in gain on sale of non-covered loans for the three and six months ended June 30, 2016 compared to the corresponding periods in 2015 related primarily to gains of \$3.2 million and \$5.3 million on sales of loans by SBF. SBF was acquired by the Company in May 2015.

Gains on investment securities available for sale for the three and six months ended June 30, 2016 and 2015 related to sales of securities in the normal course of managing liquidity, the Company's cash position, portfolio duration and yield.

Income from lease financing increased to \$11.0 million and \$21.6 million for the three and six months ended June 30, 2016, respectively, compared to \$7.0 million and \$13.3 million for the three and six months ended June 30, 2015, respectively. The increase in income is consistent with the growth of the portfolio of equipment under lease.

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Non-Interest Expense

The following table presents the components of non-interest expense for the periods indicated (in thousands):

	Three Months		Six Months Ended	
	Ended June 30,		June 30,	
	2016	2015	2016	2015
Employee compensation and benefits	\$55,752	\$51,845	\$111,212	\$101,324
Occupancy and equipment	18,784	18,934	37,775	37,104
Amortization of FDIC indemnification asset	38,060	26,460	77,754	48,465
Deposit insurance expense	4,231	3,163	7,923	6,081
Professional fees	3,604	2,680	6,235	5,978
Telecommunications and data processing	3,721	3,345	7,054	6,816
Depreciation of equipment under operating lease	6,647	4,073	13,149	7,511
Other non-interest expense	13,313	12,948	25,118	24,313
	\$144,112	\$123,448	\$286,220	\$237,592

Annualized non-interest expense as a percentage of average assets was 2.3% and 2.4% for the three and six months ended June 30, 2016 and 2015, respectively. Excluding amortization of the FDIC indemnification asset, annualized non-interest expense as a percentage of average assets was 1.7% and 1.9% for the three and six months ended June 30, 2016 and 2015, respectively. The more significant changes in the components of non-interest expense are discussed below.

Employee compensation and benefits

As is typical for financial institutions, employee compensation and benefits represents the single largest component of recurring non-interest expense. Employee compensation and benefits for the three and six months ended June 30, 2016 increased by \$3.9 million and \$9.9 million as compared to the corresponding periods in 2015. This increase reflected higher head count from the overall growth of the Company, including the SBF acquisition in May 2015, as well as annual pay raises.

Amortization of FDIC indemnification asset

Amortization of FDIC indemnification asset totaled \$38.1 million and \$77.8 million, respectively, for the three and six months ended June 30, 2016 compared to \$26.5 million and \$48.5 million, respectively, for the three and six months ended June 30, 2015.

The FDIC indemnification asset was initially recorded at its estimated fair value of \$3.4 billion, representing the present value of estimated future cash payments from the FDIC for probable losses on covered assets. As projected cash flows from the ACI loans have increased, the yield on the loans has increased accordingly and the estimated future cash payments from the FDIC have decreased. This change in estimated cash flows is recognized prospectively, consistent with the recognition of the increased cash flows from the ACI loans. As a result, the FDIC indemnification asset is being amortized to the amount of the estimated future cash flows. For the three and six months ended June 30, 2016, the average rate at which the FDIC indemnification asset was amortized was 23.08% and 22.65%, respectively, compared to 11.89% and 10.61%, respectively, during the comparable periods in 2015.

The rate of amortization will increase if estimated future cash payments from the FDIC decrease. The amount of amortization is impacted by both the change in the amortization rate and the decrease in the average balance of the indemnification asset. As we continue to submit claims under the Loss Sharing Agreements and recognize periodic amortization, the balance of the indemnification asset will continue to decline.

See Note 5 to the consolidated financial statements for a rollforward of the FDIC indemnification asset for the six months ended June 30, 2016 and the year ended December 31, 2015. Subsequent to the termination of loss sharing under the Commercial Shared-Loss Agreement in 2014, the entire balance of the FDIC indemnification asset relates to residential loans and OREO covered under the Single Family Shared-Loss Agreement. The following table presents the carrying value of the FDIC indemnification asset and the estimated future cash flows at the dates indicated (in thousands):

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	June 30, 2016	December 31, 2015
FDIC indemnification asset	\$633,744	\$739,880
Less expected amortization	(291,322)	(342,317)
Amount expected to be collected from the FDIC	\$342,422	\$397,563

The amount of expected amortization reflects the impact of improvements in cash flows expected to be collected from the covered loans, as well as the impact of time value resulting from the discounting of the asset when it was initially established. This amount will be amortized to non-interest expense using the effective interest method over the period during which cash flows from the FDIC are expected to be collected, which is limited to the lesser of the contractual term of the Single Family Shared-Loss Agreement and the expected remaining life of the indemnified assets.

Depreciation of equipment under operating lease

Depreciation of equipment under operating lease increased by \$2.6 million and \$5.6 million for the three and six months ended June 30, 2016 as compared to the comparable periods in 2015. These increases correspond to the growth of the portfolio of equipment under operating lease.

Other non-interest expense

The most significant components of other non-interest expense are advertising and promotion, costs related to lending activities and deposit generation, insurance, travel and general office expense.

Income Taxes

The Company's effective tax rate was 33.0% and 33.9% for the three and six months ended June 30, 2016, respectively, compared to 33.5% and 34.1% for the three and six months ended June 30, 2015, respectively. The most significant components included in the reconciliation of the Company's effective tax rate to the statutory federal tax rate of 35.0% were the effect of state income taxes and the impact of income not subject to federal tax.

Analysis of Financial Condition

Average interest-earning assets increased \$4.8 billion to \$23.1 billion for the six months ended June 30, 2016 from \$18.2 billion for the six months ended June 30, 2015. This increase was driven by a \$3.9 billion increase in the average balance of outstanding loans and an \$846 million increase in the average balance of investment securities. The increase in average loans reflected growth of \$4.2 billion in average new loans outstanding, partially offset by a \$243 million decrease in the average balance of loans acquired in the FSB Acquisition. Average non-interest earning assets remained relatively consistent period over period, reflecting a decrease in the FDIC indemnification asset and offsetting increases in equipment under operating lease, net and other assets. Growth of the new loan and lease portfolio, resolution of covered loans and declines in the amount of the FDIC indemnification asset are trends that are expected to continue.

Average interest bearing liabilities increased \$4.3 billion to \$19.3 billion for the six months ended June 30, 2016 from \$15.0 billion for the six months ended June 30, 2015, due to an increase of \$2.9 billion in average interest bearing deposits, a \$1.0 billion increase in average FHLB advances and a \$392 million increase in average notes and other borrowings. Average non-interest bearing deposits increased by \$218 million.

Average stockholders' equity increased by \$173 million, due primarily to the retention of earnings.

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Investment Securities Available for Sale

The following table shows the amortized cost and fair value of investment securities available for sale as of the dates indicated (in thousands):

	June 30, 2016		December 31, 2015	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
U.S. Treasury securities	\$4,998	\$5,017	\$4,997	\$4,997
U.S. Government agency and sponsored enterprise residential MBS	1,290,739	1,310,709	1,167,197	1,178,318
U.S. Government agency and sponsored enterprise commercial MBS	113,057	116,883	95,997	96,814
Re-Remics	60,857	61,775	88,658	89,691
Private label residential MBS and CMOs	469,078	517,758	502,723	544,612
Private label commercial MBS	1,365,610	1,380,883	1,219,355	1,218,740
Single family rental real estate-backed securities	807,331	807,662	646,156	636,705
Collateralized loan obligations	309,647	306,919	309,615	306,877
Non-mortgage asset-backed securities	171,995	175,545	54,981	56,500
Preferred stocks	66,297	76,181	75,742	83,209
State and municipal obligations	496,250	534,664	351,456	361,753
SBA securities	381,351	383,694	270,553	273,336
Other debt securities	3,928	7,742	3,854	7,987
	\$5,541,138	\$5,685,432	\$4,791,284	\$4,859,539

Our investment strategy has focused on providing liquidity necessary for day-to-day operations, adding a suitable balance of high credit quality, diversifying assets to the consolidated balance sheet, managing interest rate risk, and generating acceptable returns given our established risk parameters. We have sought to maintain liquidity by investing a significant portion of the portfolio in high quality liquid securities including U.S. Treasury securities, SBA securities and U.S. Government agency MBS. Investment grade municipal securities provide liquidity along with higher tax-equivalent yields at longer durations than the portfolio in general. We have also invested in highly rated structured products that, while somewhat less liquid, provide us with attractive yields. Relatively short effective portfolio duration helps mitigate interest rate risk arising from the currently low level of market interest rates. The weighted average expected life of the investment portfolio as of June 30, 2016 was 4.9 years and the effective duration was 1.8 years.

Regulations implementing the Volcker Rule were approved in December 2013. Among other provisions, the regulations generally serve to prohibit us from holding an ownership interest in a covered fund, as such terms are defined in the regulations. There are Re-Remic securities in our portfolio that we believe may be deemed impermissible investments under the regulations. At June 30, 2016, we held Re-Remics with a carrying value of \$62 million, the majority of which were in unrealized gain positions. The Re-Remics are an amortizing portfolio and we estimate that their carrying value will be significantly reduced through normal amortization and prepayments prior to the required compliance date. We will continue to evaluate our holdings in light of the regulations and further interpretations or implementation guidance that may be forthcoming, if any. As currently promulgated, we must be in compliance with the regulations implementing the Volcker Rule by July 2017 as it pertains to legacy covered funds, as defined.

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The following table shows the scheduled maturities, carrying values and current yields for investment securities available for sale as of June 30, 2016. Scheduled maturities have been adjusted for anticipated prepayments of MBS and other pass through securities. Yields on tax-exempt securities have been calculated on a tax-equivalent basis (dollars in thousands):

	Within One Year		After One Year Through Five Years		After Five Years Through Ten Years		After Ten Years		Total	
	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield
U.S. Treasury securities	\$—	— %	\$5,017	0.92 %	\$—	— %	\$—	— %	\$5,017	0.92 %
U.S. Government agency and sponsored enterprise residential MBS	231,641	2.81 %	525,267	2.46 %	388,857	1.42 %	164,944	1.35 %	1,310,709	2.07 %
U.S. Government agency and sponsored enterprise commercial MBS	9,285	2.48 %	28,070	2.47 %	59,269	2.79 %	20,259	3.03 %	116,883	2.73 %
Re-Remics	37,763	3.64 %	24,012	3.83 %	—	— %	—	— %	61,775	3.71 %
Private label residential MBS and CMOs	95,568	4.79 %	242,775	4.70 %	143,527	4.82 %	35,888	9.21 %	517,758	5.00 %
Private label commercial MBS	31,936	3.24 %	776,045	2.95 %	497,736	2.45 %	75,166	3.04 %	1,380,883	2.78 %
Single family rental real estate-backed securities	1,965	2.64 %	781,267	2.30 %	24,430	3.73 %	—	— %	807,662	2.34 %
Collateralized loan obligations	—	— %	237,136	2.54 %	69,783	3.07 %	—	— %	306,919	2.66 %
Non-mortgage asset-backed securities	14,732	3.06 %	40,960	3.29 %	119,853	2.74 %	—	— %	175,545	2.90 %
State and municipal obligations	—	— %	—	— %	534,664	4.59 %	—	— %	534,664	4.59 %
SBA securities	62,428	1.92 %	165,096	1.90 %	95,500	1.86 %	60,670	1.82 %	383,694	1.88 %
Other debt securities	—	— %	—	— %	—	— %	7,742	7.91 %	7,742	7.91 %
	\$485,318	3.18 %	\$2,825,645	2.74 %	\$1,933,619	3.05 %	\$364,669	2.78 %	5,609,251	2.85 %
Preferred stocks with no									76,181	8.02 %

scheduled
maturity
Total investment
securities
available for
sale

\$5,685,432 2.92 %

The available for sale investment securities portfolio was in a net unrealized gain position of \$144 million at June 30, 2016 with aggregate fair value equal to 102.6% of amortized cost. Net unrealized gains included \$159 million of gross unrealized gains and \$14 million of gross unrealized losses. Investment securities available for sale in an unrealized loss position at June 30, 2016 had an aggregate fair value of \$1.7 billion. At June 30, 2016, 91.0% of investment securities available for sale were backed by the U.S. Government, U.S. Government agencies or sponsored enterprises or were rated AAA or AA, based on the most recent third-party ratings. Investment securities available for sale totaling \$85 million were rated below investment grade or not rated at June 30, 2016, all of which were acquired in the FSB Acquisition and in unrealized gain positions at June 30, 2016.

We evaluate the credit quality of individual securities in the portfolio quarterly to determine whether any of the investments in unrealized loss positions are other-than-temporarily impaired. This evaluation considers, but is not necessarily limited to, the following factors, the relative significance of which varies depending on the circumstances pertinent to each individual security:

- our intent to hold the security until maturity or for a period of time sufficient for a recovery in value;
- whether it is more likely than not that we will be required to sell the security prior to recovery of its amortized cost basis;
- the length of time and extent to which fair value has been less than amortized cost;
- adverse changes in expected cash flows;
- collateral values and performance;
- the payment structure of the security, including levels of subordination or over-collateralization;
- changes in the economic or regulatory environment;
- the general market condition of the geographic area or industry of the issuer;
- the issuer's financial condition, performance and business prospects; and

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changes in credit ratings.

No securities were determined to be other-than-temporarily impaired at June 30, 2016 or 2015, or during the three and six months then ended.

We do not intend to sell securities in significant unrealized loss positions. Based on an assessment of our liquidity position and internal and regulatory guidelines for permissible investments and concentrations, it is not more likely than not that we will be required to sell securities in significant unrealized loss positions prior to recovery of amortized cost basis. The severity of impairment of individual securities in the portfolio is generally not material. Unrealized losses in the portfolio at June 30, 2016 were primarily attributable to widening credit spreads and, for certain securities, increased extension risk.

The timely repayment of principal and interest on U.S. Government agency and sponsored enterprise securities in unrealized loss positions is explicitly or implicitly guaranteed by the full faith and credit of the U.S. Government. Management performed projected cash flow analyses of the private label residential MBS and CMOs and private label commercial MBS in unrealized loss positions, incorporating CUSIP level assumptions consistent with the collateral characteristics of each security including collateral default rate, voluntary prepayment rate, severity and delinquency assumptions. Based on the results of this analysis, no credit losses were projected. Management's analysis of the credit characteristics of individual securities and the underlying collateral and levels of subordination for each of the single family rental real estate-backed securities and collateralized loan obligations in unrealized loss positions is not indicative of projected credit losses.

For further discussion of our analysis of investment securities for OTTI, see Note 3 to the consolidated financial statements.

We use third-party pricing services to assist us in estimating the fair value of investment securities. We perform a variety of procedures to ensure that we have a thorough understanding of the methodologies and assumptions used by the pricing services including obtaining and reviewing written documentation of the methods and assumptions employed, conducting interviews with valuation desk personnel and reviewing model results and detailed assumptions used to value selected securities as considered necessary. Our classification of prices within the fair value hierarchy is based on an evaluation of the nature of the significant assumptions impacting the valuation of each type of security in the portfolio. We have established a robust price challenge process that includes a review by our treasury front office of all prices provided on a monthly basis. Any price evidencing unexpected month over month fluctuations or deviations from our expectations based on recent observed trading activity and other information available in the marketplace that would impact the value of the security is challenged. Responses to the price challenges, which generally include specific information about inputs and assumptions incorporated in the valuation and their sources, are reviewed in detail. If considered necessary to resolve any discrepancies, a price will be obtained from an additional independent valuation specialist. We do not typically adjust the prices provided, other than through this established challenge process. Our primary pricing services utilize observable inputs when available, and employ unobservable inputs and proprietary models only when observable inputs are not available. As a matter of course, the services validate prices by comparison to recent trading activity whenever such activity exists. Quotes obtained from the pricing services are typically non-binding.

We have also established a quarterly price validation process to assess the propriety of the pricing methodologies utilized by our primary pricing services by independently verifying the prices of a sample of securities in the portfolio. Sample sizes vary based on the type of security being priced, with higher sample sizes applied to more difficult to value security types. Verification procedures may consist of obtaining prices from an additional outside source or internal modeling, generally based on Intex. We have established acceptable percentage deviations from the price provided by the initial pricing source. If deviations fall outside the established parameters, we will obtain and evaluate more detailed information about the assumptions and inputs used by each pricing source or, if considered necessary, employ an additional valuation specialist to price the security in question. Pricing issues identified through this evaluation are addressed with the applicable pricing service and methodologies or inputs are revised as determined necessary. Depending on the results of the validation process, sample sizes may be extended for particular classes of securities. Results of the validation process are reviewed by the treasury front office and by senior management.

The majority of our investment securities are classified within level 2 of the fair value hierarchy. U.S. Treasury securities and certain preferred stocks are classified within level 1 of the hierarchy. At June 30, 2016 and December 31, 2015, 2.4% and 3.0%, respectively, of our investment securities were classified within level 3 of the fair value hierarchy. Securities classified within level 3 of the hierarchy at June 30, 2016 included certain private label residential MBS and trust preferred securities. These securities were classified within level 3 of the hierarchy because proprietary assumptions related to voluntary prepayment rates, default probabilities, loss severities and discount rates were considered significant to the valuation. There were no transfers of investment securities between levels of the fair value hierarchy during the six months ended June 30, 2016 and 2015.

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For additional discussion of the fair values of investment securities, see Note 10 to the consolidated financial statements.

Loans Held for Sale

Loans held for sale at June 30, 2016 included \$32.6 million of commercial loans originated by SBF with the intent to sell in the secondary market. Commercial loans held for sale are comprised of the portion of loans guaranteed by U.S. government agencies. Loans are generally sold with servicing retained. Servicing activity did not have a material impact on the results of operations for the three and six months ended June 30, 2016 and 2015. We anticipate growth in loan sales and servicing and related revenue from SBF in the future.

Loans

The loan portfolio comprises the Company's primary interest-earning asset. The following tables show the composition of the loan portfolio and the breakdown of the portfolio among new loans, non-covered ACI loans, covered ACI loans and covered non-ACI loans at the dates indicated (dollars in thousands):

	June 30, 2016					Percent of Total	
	Non-Covered Loans		Covered Loans				
	New Loans	ACI	ACI	Non-ACI	Total		
Residential:							
1-4 single family residential	\$3,153,822	\$—	\$622,306	\$40,482	\$3,816,610	21.0	%
Home equity loans and lines of credit	1,172	—	3,510	57,174	61,856	0.3	%
	3,154,994	—	625,816	97,656	3,878,466	21.3	%
Commercial:							
Multi-family	3,675,945	24,577	—	—	3,700,522	20.3	%
Commercial real estate							
Owner occupied	1,582,084	9,638	—	—	1,591,722	8.8	%
Non-owner occupied	3,439,888	13,981	—	—	3,453,869	19.0	%
Construction and land	400,231	—	—	—	400,231	2.2	%
Commercial and industrial	2,981,955	1,031	—	—	2,982,986	16.4	%
Commercial lending subsidiaries	2,139,795	—	—	—	2,139,795	11.8	%
	14,219,898	49,227	—	—	14,269,125	78.5	%
Consumer	31,587	8	—	—	31,595	0.2	%
Total loans	17,406,479	49,235	625,816	97,656	18,179,186	100.0	%
Premiums, discounts and deferred fees and costs, net	47,295	—	—	(6,879)	40,416		
Loans including premiums, discounts and deferred fees and costs	17,453,774	49,235	625,816	90,777	18,219,602		
Allowance for loan and lease losses	(132,265)	—	—	(3,453)	(135,718)		
Loans, net	\$17,321,509	\$49,235	\$625,816	\$87,324	\$18,083,884		

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	December 31, 2015		Covered Loans		Total	Percent of	
	Non-Covered Loans New Loans	ACI	ACI	Non-ACI		Total	Total
Residential:							
1-4 single family residential	\$2,883,470	\$—	\$699,039	\$46,110	\$3,628,619	21.9	%
Home equity loans and lines of credit	806	—	4,831	67,493	73,130	0.4	%
	2,884,276	—	703,870	113,603	3,701,749	22.3	%
Commercial:							
Multi-family	3,447,526	24,636	—	—	3,472,162	20.9	%
Commercial real estate							
Owner occupied	1,338,184	16,567	—	—	1,354,751	8.2	%
Non-owner occupied	2,885,226	25,101	—	—	2,910,327	17.5	%
Construction and land	347,676	—	—	—	347,676	2.1	%
Commercial and industrial	2,769,813	1,062	—	—	2,770,875	16.7	%
Commercial lending subsidiaries	2,003,984	—	—	—	2,003,984	12.1	%
	12,792,409	67,366	—	—	12,859,775	77.5	%
Consumer	35,173	10	—	—	35,183	0.2	%
Total loans	15,711,858	67,376	703,870	113,603	16,596,707	100.0	%
Premiums, discounts and deferred fees and costs, net	47,829	—	—	(7,933)	39,896		
Loans including premiums, discounts and deferred fees and costs	15,759,687	67,376	703,870	105,670	16,636,603		
Allowance for loan and lease losses	(120,960)	—	—	(4,868)	(125,828)		
Loans, net	\$15,638,727	\$67,376	\$703,870	\$100,802	\$16,510,775		

Total loans, including premiums, discounts and deferred fees and costs, increased by \$1.6 billion to \$18.2 billion at June 30, 2016, from \$16.6 billion at December 31, 2015. New loans grew by \$1.7 billion while loans acquired in the FSB Acquisition declined by \$111 million from December 31, 2015 to June 30, 2016. New residential loans grew by \$271 million and new commercial loans grew by \$1.4 billion during the six months ended June 30, 2016.

Growth in new loans, including premiums, discounts and deferred fees and costs, for the six months ended June 30, 2016 included \$431 million for the Florida franchise, \$647 million for the New York franchise and \$616 million for the national platforms.

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The following tables show the composition of the new loan portfolio and the breakdown among the Florida and New York franchises and national platforms at the dates indicated. Amounts include premiums, discounts and deferred fees and costs (dollars in thousands):

	June 30, 2016			
	Florida	New York	National	Total
Residential	\$244,614	\$244,644	\$2,707,460	\$3,196,718
Commercial:				
Multi-family	451,107	3,229,600	—	3,680,707
Commercial real estate				—
Owner occupied	959,762	527,242	95,946	1,582,950
Non-owner occupied	2,074,842	1,270,438	88,186	3,433,466
Construction and land	279,069	107,447	13,322	399,838
Commercial and industrial	1,925,165	750,252	304,316	2,979,733
Commercial lending subsidiaries	—	—	2,148,856	2,148,856
Consumer	27,835	3,671	—	31,506
	\$5,962,394	\$6,133,294	\$5,358,086	\$17,453,774
	34.2	% 35.1	% 30.7	% 100.0
				%
	December 31, 2015			
	Florida	New York	National	Total
Residential	\$246,751	\$228,741	\$2,449,935	\$2,925,427
Commercial:				
Multi-family	500,400	2,951,573	—	3,451,973
Commercial real estate				—
Owner occupied	840,364	418,935	79,648	1,338,947
Non-owner occupied	1,715,352	1,086,224	78,541	2,880,117
Construction and land	224,259	106,973	15,739	346,971
Commercial and industrial	1,974,179	688,691	105,658	2,768,528
Commercial lending subsidiaries	—	—	2,012,646	2,012,646
Consumer	29,820	5,258	—	35,078
	\$5,531,125	\$5,486,395	\$4,742,167	\$15,759,687
	35.1	% 34.8	% 30.1	% 100.0
				%

Residential Mortgages

Residential mortgages totaled \$3.9 billion, or 21.3% of total loans and \$3.7 billion, or 22.3% of total loans at June 30, 2016 and December 31, 2015, respectively.

The new residential loan portfolio includes both loans originated through retail channels in our Florida and New York geographic footprint and loans purchased on a national basis through established correspondent channels. New residential mortgage loans are primarily closed-end, first lien jumbo mortgages for the purchase or re-finance of owner occupied property. The loans have terms ranging from 10 to 30 years, with either fixed or adjustable interest rates. At June 30, 2016, 33.8% of the new residential loan portfolio were fixed rate loans. The ARM portfolio included 5/1, 7/1 and 10/1 ARMs. At June 30, 2016, \$160 million or 5.0% of new residential mortgage loans were interest-only loans, substantially all of which begin amortizing 10 years after origination. In January 2016, we terminated our retail residential mortgage origination business, but we continue to purchase residential loans through correspondent channels.

Home equity loans and lines of credit are not significant to the new loan portfolio.

We do not originate or acquire option ARMs, “no-doc” or “reduced-doc” mortgages and do not utilize wholesale mortgage origination channels although the covered loan portfolio contains loans with these characteristics. The Company’s exposure to future losses on these mortgage loans is mitigated by the Single Family Shared-Loss Agreement.

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The geographic concentration of the new 1-4 single family residential portfolio is summarized as follows at the dates indicated (dollar in thousands):

	June 30, 2016		December 31, 2015	
California	\$901,774	28.2 %	\$948,301	32.4 %
New York	653,666	20.5 %	548,181	18.7 %
Florida	457,228	14.3 %	422,638	14.5 %
Others ⁽¹⁾	1,182,878	37.0 %	1,005,501	34.4 %
	\$3,195,546	100.0%	\$2,924,621	100.0%

(1) No other state represented borrowers with more than 4.0% of 1-4 single family residential loans outstanding at June 30, 2016 or December 31, 2015.

Commercial loans

The commercial portfolio segment includes loans secured by multi-family properties, loans secured by both owner-occupied and non-owner occupied commercial real estate, construction loans, land loans, commercial and industrial loans and direct financing leases.

Management's loan origination strategy is heavily focused on the commercial portfolio segment, which comprised 81.7% and 81.4% of new loans as of June 30, 2016 and December 31, 2015, respectively.

Commercial real estate loans include term loans secured by owner and non-owner occupied income producing properties including rental apartments, mixed-use properties, industrial properties, retail shopping centers, free-standing single-tenant buildings, office buildings, warehouse facilities and hotels as well as real estate secured lines of credit. Loans secured by commercial real estate typically have shorter repayment periods and re-price more frequently than 1-4 single family residential loans but may have longer terms and re-price less frequently than commercial and industrial loans. The Company's underwriting standards generally provide for loan terms of five to ten years, with amortization schedules of no more than thirty years. LTV ratios are typically limited to no more than 80%. In addition, the Company usually obtains personal guarantees or carve-out guarantees of the principals as an additional enhancement for commercial real estate loans. Owner-occupied commercial real estate loans typically have risk profiles more closely aligned with that of commercial and industrial loans than with other types of commercial real estate loans. Construction and land loans represented only 2.2% of the total loan portfolio at June 30, 2016. Construction and land loans are generally made for projects expected to stabilize within eighteen months of completion in submarkets with strong fundamentals and, to a lesser extent, for-sale residential projects to experienced developers with a strong cushion between market prices and loan basis. At June 30, 2016, the recorded investment in construction loans with available interest reserves totaled \$92 million; the amount of available interest reserves totaled \$2 million. All of these loans were rated "pass" at June 30, 2016.

Commercial and industrial loans are typically made to small and middle market businesses and include equipment loans and leases, secured and unsecured working capital facilities, formula-based loans, mortgage warehouse lines, taxi medallion loans, lease financing, SBA product offerings and business acquisition finance credit facilities. These loans may be structured as term loans, typically with maturities of three to seven years, or revolving lines of credit which may have multi-year maturities. Commercial loans include shared national credits totaling \$1.1 billion at June 30, 2016, typically relationship based loans to borrowers in our geographic footprint.

Through its commercial lending subsidiaries, Pinnacle and Bridge, the Bank provides equipment and franchise financing on a national basis using both loan and lease structures. Pinnacle primarily offers essential use equipment financing to municipalities through loans and leases, as well as bond re-funding structures; Bridge offers franchise equipment and acquisition financing as well as transportation equipment finance. The Bank's SBF unit primarily originates SBA guaranteed commercial and commercial real estate loans, generally selling the guaranteed portion in the secondary market and retaining the unguaranteed portion in portfolio. The Bank engages in mortgage warehouse lending on a national basis.

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The following table presents the recorded investment in loans and direct finance leases held for investment for each of our national commercial lending platforms at the dates indicated (in thousands):

	June 30, 2016	December 31, 2015
Pinnacle	\$1,200,922	\$ 1,085,981
Bridge - franchise finance	456,013	440,375
Bridge - transportation equipment finance	491,921	486,290
SBF	219,757	197,953
Mortgage warehouse lending	282,013	81,633
	\$2,650,626	\$ 2,292,232

The geographic concentration of the commercial loans in the national platforms is summarized as follows at the dates indicated. Amounts include premiums, discounts and deferred fees and costs (dollars in thousands):

	June 30, 2016			December 31, 2015		
Florida	\$528,422	19.9 %		\$537,111	23.4 %	
California	382,406	14.4 %		188,338	8.2 %	
Iowa	169,783	6.4 %		159,142	6.9 %	
Virginia	138,801	5.2 %		113,486	5.0 %	
Nevada	116,931	4.4 %		101,370	4.4 %	
Texas	111,660	4.2 %		90,989	4.0 %	
All others (1)	1,202,623	45.5 %		1,101,796	48.1 %	
	\$2,650,626	100.0 %		\$2,292,232	100.0 %	

(1) No other state represented borrowers with more than 4.0% of loans outstanding at June 30, 2016.

Consumer Loans

Consumer loans are comprised primarily of consumer installment financing, loans secured by certificates of deposit, unsecured personal lines of credit and demand deposit account overdrafts.

Asset Quality

In discussing asset quality, we distinguish between new loans and loans acquired in the FSB Acquisition. Although the risk profile of loans acquired in the FSB Acquisition is higher than that of new loans, our exposure to loss related to the loans acquired in the FSB Acquisition is significantly mitigated by the fair value basis recorded in these loans resulting from the application of acquisition accounting and, for the residential loans, by the Single Family Shared-Loss Agreement. Loss sharing under the Commercial Shared-Loss Agreement was terminated on May 21, 2014. At June 30, 2016, loans covered under the Single Family Shared-Loss Agreement totaled \$717 million. We have established a robust credit risk management framework, put in place an experienced team to lead the workout and recovery process for the commercial and commercial real estate portfolios and implemented a dedicated internal credit review function that reports directly to our Audit and Risk Committee. We have an experienced resolution team in place for covered residential mortgage loans, and have implemented outsourcing arrangements with industry leading firms in certain areas such as OREO resolution.

Loan performance is monitored by our credit administration and workout and recovery departments. Generally, commercial relationships with balances in excess of defined thresholds are re-evaluated at least annually and more frequently if circumstances indicate that a change in risk rating may be warranted. At June 30, 2016, the defined thresholds ranged from \$1 million to \$3 million. Additionally, commercial loans are regularly reviewed by our internal credit review department. The Company utilizes a 13 grade internal asset risk classification system as part of its efforts to monitor and maintain commercial asset quality. 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. These borrowers may exhibit negative financial trends or erratic financial performance, strained liquidity, marginal collateral coverage, declining industry trends or weak management. Loans with well-defined credit weaknesses that may result in a loss if

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the deficiencies are not corrected are assigned a risk rating of substandard. These borrowers may exhibit payment defaults, inadequate cash flows, operating losses, increasing balance sheet leverage, project cost overruns, unreasonable construction delays, exhausted interest reserves, declining collateral values, frequent overdrafts or past due real estate taxes. Loans with weaknesses so severe that collection in full is highly questionable or improbable, but because of certain reasonably specific pending factors have not been charged off, are assigned an internal risk rating of doubtful.

Residential mortgage loans and consumer loans are not individually risk rated. Delinquency status is the primary measure we use to monitor the credit quality of these loans. We also consider original LTV and FICO score to be significant indicators of credit quality for the new 1-4 single family residential portfolio.

New Loans

Commercial

The ongoing asset quality of significant commercial loans is monitored on an individual basis through our regular credit review and risk rating process. We believe internal risk rating is the best indicator of the credit quality of commercial loans. Homogenous groups of smaller balance commercial loans may be monitored collectively. At June 30, 2016, new commercial loans with aggregate balances of \$83 million, \$231 million and \$7 million were rated special mention, substandard and doubtful, respectively. At December 31, 2015, new commercial loans aggregating \$32 million, \$198 million and \$6 million were rated special mention, substandard and doubtful, respectively. The balance of substandard loans at June 30, 2016 includes approximately \$118 million of taxi medallion finance loans. Criticized and classified assets represented 2.2% of the new commercial portfolio at June 30, 2016. See Note 4 to the consolidated financial statements for more detailed information about risk rating of new commercial loans.

The commercial and industrial loan portfolio includes exposure to taxi medallion finance of approximately \$200 million at June 30, 2016. The estimated value of underlying taxi medallion collateral and liquidity in the market for sales of medallions, a potential secondary source of repayment, have declined in recent periods due to competitive developments in the transportation-for-hire industry. We update our analysis of the cash flow generating capacity of the operation of medallions on a regular basis using current available taxi industry data from which prospective debt service capacity is estimated. This analysis is based on an extensive data set typically made available by the New York Taxi and Limousine Commission semi-annually and assumptions that we believe to be generally conservative regarding fleet utilization and borrower expenses. Actual debt service coverage of our medallion loans may in some cases be more favorable than these cash flow capacity estimates. We also consider, if less favorable than our analysis of cash flow generating capacity, available borrower specific financial information. We update our analysis of estimated medallion valuations on a quarterly basis, based on the cash flow capacity estimates and recent medallion transfer activity. The taxi medallion portfolio had the following characteristics at June 30, 2016:

• Approximately 94% of the portfolio was concentrated in New York City.

• Loans delinquent by 30 days or more totaled \$16.6 million or 8.3% of the portfolio, compared to \$7.9 million or 3.7% of the portfolio at December 31, 2015. Loans delinquent by 90 days or more totaled \$8.2 million or 4.1% of the portfolio, compared to \$1.9 million or 0.9% of the portfolio at December 31, 2015. Loans on non-accrual status totaled \$34.3 million at June 30, 2016.

• At June 30, 2016, \$82 million and \$118 million of loans were rated pass and substandard, respectively.

• Based on our updated analysis of medallion values, the weighted average estimated current LTV for loans directly secured by medallions was approximately 75% and approximately 41% of those loans had current LTV in excess of 100%.

• Approximately 16% of the portfolio consisted of interest only loans.

• Based on our updated analysis of the estimated cash flow generating capacity of medallions, as discussed above, approximately 48% of loans secured directly by taxi medallions had estimated prospective debt service coverage ratios of less than 1.00, the majority of which were current with respect to payment of principal and interest.

• The portfolio included 41 loans modified in TDRs with a recorded investment of \$29.3 million.

• In the aggregate, the ALLL related to taxi medallion loans was 7.0% of the outstanding balance at June 30, 2016, compared to 4.7% at December 31, 2015.

We are no longer originating new taxi medallion loans. Our portfolio management strategies include, but are not limited to, working with borrowers experiencing temporary cash flow challenges to provide short term relief and/or extended amortization

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periods, pro-actively attempting to refinance loans prior to maturity, shortening amortization periods when possible with an emphasis on converting interest only loans, continuing to monitor industry data and obtain updated borrower and guarantor financial information, and identifying and closely monitoring loans with higher risk profiles. As taxi medallion loans approach maturity or are refinanced, we expect the number and amount of TDRs in this portfolio segment to increase.

Residential

New 1-4 single family residential loans past due more than 30 days totaled \$5.5 million and \$2.5 million at June 30, 2016 and December 31, 2015, respectively. The amount of these loans 90 days or more past due was \$0.2 million and \$1.5 million at June 30, 2016 and December 31, 2015, respectively.

The majority of our new residential mortgage portfolio consists of loans purchased through established correspondent channels. For purchasing seasoned loans, good payment history is required. In general, we purchase performing jumbo mortgage loans which have FICO scores above 700, primarily are owner-occupied and full documentation, and have a current LTV of 80% or less. We perform due diligence on the purchased loans for credit, compliance, counterparty, payment history and property valuation.

The following tables show the distribution of new 1-4 single family residential loans by original FICO and LTV as of the dates indicated:

LTV	June 30, 2016					Total
	FICO					
	720 or less	721 - 740	741 - 760	761 or greater		
60% or less	2.5%	3.3%	4.8%	22.5%	33.1%	
60% - 70%	2.4%	2.9%	3.8%	15.5%	24.6%	
70% - 80%	2.9%	4.0%	7.8%	26.2%	40.9%	
More than 80%	0.8%	0.1%	0.1%	0.4%	1.4%	
	8.6%	10.3%	16.5%	64.6%	100.0%	

LTV	December 31, 2015					Total
	FICO					
	720 or less	721 - 740	741 - 760	761 or greater		
60% or less	2.7%	3.4%	4.9%	22.8%	33.8%	
60% - 70%	2.4%	2.7%	3.8%	16.4%	25.3%	
70% - 80%	2.2%	3.4%	7.2%	26.4%	39.2%	
More than 80%	1.0%	0.1%	0.1%	0.5%	1.7%	
	8.3%	9.6%	16.0%	66.1%	100.0%	

At June 30, 2016, 70.8% of new 1-4 single family residential loans with LTV of more than 80% were insured by the Federal Housing Administration.

At June 30, 2016, the new 1-4 single family residential loan portfolio had the following characteristics: substantially all were full documentation with an average FICO score of 766 and average LTV of 65.5%. The majority of this portfolio was owner-occupied, with 88.8% primary residence, 8.5% second homes and 2.7% investment properties. In terms of vintage, 12.9% of the portfolio was originated pre-2013, 24.2% in 2013, 21.9% in 2014, 28.3% in 2015 and 12.7% in 2016.

Consumer

At June 30, 2016 and December 31, 2015, there were no delinquent new consumer loans.

Loans Acquired in the FSB Acquisition

Loans acquired in the FSB Acquisition consist of both ACI loans and non-ACI loans. At June 30, 2016, ACI loans totaled \$675 million and non-ACI loans totaled \$91 million, including premiums, discounts and deferred fees and costs.

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Residential

At June 30, 2016, residential ACI loans totaled \$626 million and residential non-ACI loans totaled \$91 million, including premiums, discounts and deferred fees and costs. All of these loans are covered under the Single Family Shared-Loss Agreement.

Covered residential loans were placed into homogenous pools at the time of the FSB Acquisition and the ongoing credit quality and performance of these loans is monitored on a pool basis. The fair value of the pools was initially measured based on the expected cash flows from each pool. Initial cash flow expectations incorporated significant assumptions regarding prepayment rates, frequency of default and loss severity. For ACI pools, the difference between total contractual payments due and the cash flows expected to be received at acquisition was recognized as non-accretable difference. The excess of expected cash flows over the recorded fair value of each ACI pool at acquisition, known as the accretable yield, is being recognized as interest income over the life of each pool. We monitor the pools quarterly to determine whether any significant changes have occurred in expected cash flows that would be indicative of impairment or necessitate reclassification between non-accretable difference and accretable yield. At June 30, 2016, accretable yield on residential ACI loans totaled \$784 million and non-accretable difference related to those loans totaled \$493 million. Accretable yield on commercial ACI loans totaled \$20 million at June 30, 2016, with no significant non-accretable difference remaining.

At June 30, 2016, the recorded investment in non-ACI 1-4 single family residential loans was \$34.4 million; \$2.0 million or 5.8% of these loans were 30 days or more past due and \$0.9 million or 2.7% of these loans were 90 days or more past due. At June 30, 2016, the recorded investment in ACI 1-4 single family residential loans totaled \$622.3 million; \$26.8 million or 4.3% of these loans were delinquent by 30 days or more and \$15.0 million or 2.4% were delinquent by 90 days or more.

At June 30, 2016, non-ACI home equity loans and lines of credit had an aggregate recorded investment of \$56.3 million; \$4.9 million or 8.8% of these loans were 30 days or more past due and \$2.5 million or 4.4% were 90 days or more past due. ACI home equity loans and lines of credit had a carrying amount of \$3.5 million at June 30, 2016; amounts 30 days or more contractually delinquent were not significant.

Home equity loans and lines of credit generally provide that payment terms be reset after an initial contractual period of interest only payments, requiring the pay down of principal through balloon payments or amortization. Additional information regarding ACI and non-ACI home equity loans and lines of credit at June 30, 2016 is summarized as follows:

	ACI	Non-ACI
Loans resetting from interest only:		
Previously reset	53.2 %	42.1 %
Scheduled to reset within 12 months	18.1 %	16.2 %
Scheduled to reset after 12 months	28.7 %	41.7 %
	100.0%	100.0 %
Lien position:		
First liens	13.6 %	15.5 %
Second or third liens	86.4 %	84.5 %
	100.0%	100.0 %

The Company's exposure to loss related to covered loans is significantly mitigated by the Single Family Shared-Loss Agreement and by the fair value basis recorded in these assets resulting from the application of acquisition accounting. While resets of interest only loans have contributed to an increase in default rates for the covered home equity portfolio, the impact on results of operations, after consideration of the mitigating impact of loss sharing, is not significant.

Commercial

At June 30, 2016, ACI commercial loans had a carrying value of \$49.2 million. The carrying amount of ACI commercial loans that were past due, criticized or classified at June 30, 2016 was not significant.

Impaired Loans and Non-Performing Assets

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Non-performing assets generally consist of (i) non-accrual loans, including loans that have been modified in TDRs and placed on non-accrual status, (ii) accruing loans that are more than 90 days contractually past due as to interest or principal, excluding ACI loans, and (iii) OREO and repossessed assets. Impaired loans also typically include loans modified in TDRs that are accruing and ACI loans for which expected cash flows have been revised downward since acquisition (as adjusted for any additional cash flows expected to be collected arising from changes in estimates after acquisition). Impaired ACI loans or pools with remaining accretable yield have not been classified as non-accrual loans and we do not consider them to be non-performing assets.

The following table summarizes the Company's impaired loans and non-performing assets at the dates indicated (in thousands):

	June 30, 2016			December 31, 2015			
	Covered Assets	Non-Covered Assets	Total	Covered Assets	Non-Covered Assets	Total	
Non-accrual loans							
Residential:							
1 - 4 single family residential	\$930	\$375	\$1,305	\$594	\$2,007	\$2,601	
Home equity loans and lines of credit	2,768	—	2,768	4,724	—	4,724	
Total residential loans	3,698	375	4,073	5,318	2,007	7,325	
Commercial:							
Commercial real estate							
Owner occupied	—	21,050	21,050	—	8,274	8,274	
Non-owner occupied	—	563	563	—	—	—	
Construction and land	—	1,331	1,331	—	—	—	
Commercial and industrial	—	49,591	49,591	—	37,782	37,782	
Commercial lending subsidiaries	—	7,784	7,784	—	9,920	9,920	
Total commercial loans	—	80,319	80,319	—	55,976	55,976	
Consumer	—	6	6	—	7	7	
Total non-accrual loans	3,698	80,700	84,398	5,318	57,990	63,308	
TDRs ⁽¹⁾	—	—	—	7,050	1,175	8,225	
Total non-performing loans	3,698	80,700	84,398	12,368	59,165	71,533	
OREO	8,848	3,112	11,960	8,853	—	8,853	
Repossessed assets	—	1,006	1,006	—	2,337	2,337	
Total non-performing assets	12,546	84,818	97,364	21,221	61,502	82,723	
Performing TDRs	10,463	48,765	59,228	3,988	5,535	9,523	
Total impaired loans and non-performing assets	\$23,009	\$133,583	\$156,592	\$25,209	\$67,037	\$92,246	
Non-performing loans to total loans ⁽²⁾		0.46	% 0.46	%	0.37	% 0.43	%
Non-performing assets to total assets ⁽³⁾		0.32	% 0.37	%	0.26	% 0.35	%
ALLL to total loans ⁽²⁾		0.76	% 0.74	%	0.76	% 0.76	%
ALLL to non-performing loans		163.90	% 160.81	%	204.45	% 175.90	%
Net charge-offs to average loans ⁽⁴⁾		0.09	% 0.10	%	0.09	% 0.10	%

(1) Effective January 1, 2016, we are no longer reporting accruing TDRs as non-performing.

(2) Total loans for purposes of calculating these ratios include premiums, discounts and deferred fees and costs.

(3) Ratio for non-covered assets is calculated as non-performing non-covered assets to total assets.

(4) Annualized.

Contractually delinquent ACI loans with remaining accretable yield are not reflected as non-accrual loans because accretion continues to be recorded in income. Accretion continues to be recorded as long as there is an expectation of future cash flows in excess of carrying amount from these loans. The carrying value of ACI loans contractually delinquent by more than 90 days but on which income was still being recognized was \$15 million and \$20 million at June 30, 2016 and December 31, 2015, respectively.

New and non-ACI commercial loans are placed on non-accrual status when (i) management has determined that full repayment of all contractual principal and interest is in doubt, or (ii) the loan is past due 90 days or more as to principal or interest unless the loan is well secured and in the process of collection. New and non-ACI residential and consumer loans are generally placed on non-accrual status when 90 days of interest is due and unpaid. When a loan is placed on non-accrual status, uncollected interest accrued is reversed and charged to interest income. Commercial loans are returned to accrual status only after all past due principal and interest has been collected and full repayment of remaining contractual principal and interest is reasonably assured. Residential loans are returned to accrual status when less than 90 days of interest is due and unpaid. Past due status of loans is determined based on the contractual next payment due date. Loans less than 30 days past due are reported as current.

A loan modification is considered a TDR if the Company, for economic or legal reasons related to the borrower's financial difficulties, grants a concession to the borrower that the Company would not otherwise grant. These concessions may take the form of temporarily or permanently reduced interest rates, payment abatement periods, restructuring of payment terms, extensions of maturity at below market terms, or in some cases, partial forgiveness of principal. Under GAAP, modified ACI loans accounted for in pools are not accounted for as TDRs and are not separated from their respective pools when modified. Included in TDRs are residential loans to borrowers who have not reaffirmed their debt discharged in Chapter 7 bankruptcy.

The following table summarizes loans modified in TDRs at June 30, 2016 (dollars in thousands):

	Number of TDRs	Recorded Investment	Related Specific Allowance
Residential	53	\$ 12,140	\$ 580
Commercial	53	59,241	2,219
	106	\$ 71,381	\$ 2,799

Potential Problem Loans

Potential problem loans have been identified by management as those loans included in the "substandard accruing" risk rating category. These loans are typically performing, but possess specifically identified credit weaknesses that, if not remedied, may lead to a downgrade to non-accrual status and identification as impaired in the near-term.

Substandard accruing new loans totaled \$157 million, of which \$84 million were taxi medallion loans, at June 30, 2016. The majority of these loans were current as to principal and interest at June 30, 2016.

Loss Mitigation Strategies

Criticized or classified commercial loans in excess of certain thresholds are reviewed quarterly by the Criticized Asset Committee, which determines the appropriate strategy for collection to mitigate the amount of credit losses. Criticized asset reports for each relationship are presented by the assigned relationship manager to the Criticized Asset Committee until such time as the relationships are returned to a satisfactory credit risk rating or otherwise resolved. The Criticized Asset Committee may require the transfer of a loan to our workout and recovery department, which is tasked to effectively manage the loan with the goal of minimizing losses and expenses associated with restructure, collection and/or liquidation of collateral. Commercial loans with a risk rating of substandard; impaired loans on non-accrual status; loans modified as TDRs; or assets classified as OREO or repossessed assets are usually transferred to workout and recovery. Oversight of the workout and recovery department is provided by the Asset Recovery Committee.

We evaluate each residential loan in default to determine the most effective loss mitigation strategy, which may be modification, short sale, or foreclosure. We offer loan modifications under HAMP to eligible borrowers in the residential portfolio. HAMP is a uniform loan modification process that provides eligible borrowers with sustainable monthly mortgage payments equal to a target 31% of their gross monthly income. We have approved 4,416 permanent loan modifications through June 30, 2016 and there are 24 trial loan modifications at June 30, 2016. Substantially all of these modified loans were covered ACI loans accounted for in pools.

In addition to the HAMP program, we offer a proprietary Subordinate Lien Modification Program for home equity loans and lines of credit. This provides BankUnited the ability to offer a modification on loans covered under the Single Family Shared-Loss Agreement that are subordinate to either a BankUnited first lien or a first lien from another lender.

Analysis of the Allowance for Loan and Lease Losses

The ALLL relates to (i) new loans, (ii) estimated additional losses arising on non-ACI loans subsequent to the FSB Acquisition, and (iii) impairment recognized as a result of decreases in expected cash flows on ACI loans due to further credit deterioration. The impact of any additional provision for losses on covered loans is significantly mitigated by an increase in the FDIC indemnification asset. The determination of the amount of the ALLL is, by nature, highly complex and subjective. Future events that are inherently uncertain could result in material changes to the level of the ALLL. General economic conditions

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including but not limited to unemployment rates, the level of business investment and growth, real estate values, vacancy rates and rental rates in our primary market areas, the level of interest rates, and a variety of other factors that affect the ability of borrowers' businesses to generate cash flows sufficient to service their debts will impact the future performance of the portfolio.

New and non-ACI Loans

Residential

Due to the lack of similarity between the risk characteristics of new loans and covered loans in the residential and home equity portfolios, management does not believe it is appropriate to use the historical performance of the covered residential mortgage portfolio as a basis for calculating the ALLL applicable to new loans. The new loan portfolio has not yet developed an observable loss trend. Therefore, the ALLL for new residential loans is based primarily on relevant proxy historical loss rates. The ALLL for new 1-4 single family residential loans is estimated using average annual loss rates on prime residential mortgage securitizations issued between 2003 and 2008 as a proxy. Based on the comparability of FICO scores and LTV ratios between loans included in those securitizations and loans in the Bank's portfolio and the geographic diversity in the new purchased residential portfolio, we determined that prime residential mortgage securitizations provide an appropriate proxy for incurred losses in this portfolio class. A peer group 16-quarter average net charge-off rate is used to estimate the ALLL for the new home equity loan class. See further discussion of the use of peer group loss factors below. The new home equity portfolio is not a significant component of the overall loan portfolio.

Based on an analysis of historical performance, OREO and short sale losses, recent trending data and other internal and external factors, we have concluded that historical performance by portfolio class is the best indicator of incurred loss for the non-ACI 1-4 single family residential and home equity portfolio classes. For each of these portfolio classes, a quarterly roll rate matrix is calculated by delinquency bucket to measure the rate at which loans move from one delinquency bucket to the next during a given quarter. An average 16-quarter roll rate matrix is used to estimate the amount within each delinquency bucket expected to roll to 120+ days delinquent. We assume no cure for those loans that are currently 120+ days delinquent. Loss severity given default is estimated based on internal data about OREO sales and short sales from the portfolio. The ALLL calculation incorporates a 100% loss severity assumption for home equity loans that are projected to roll to default. For non-ACI residential loans, the allowance is initially calculated based on UPB. The total of UPB less the calculated allowance is then compared to the carrying amount of the loans, net of unamortized credit related fair value adjustments established at acquisition. If the calculated balance net of the allowance is less than the carrying amount, an additional allowance is established. Any increase or decrease in the allowance for non-ACI residential loans will result in a corresponding increase or decrease in the FDIC indemnification asset.

Commercial and Consumer

Since the new commercial loan portfolio is not yet seasoned enough to exhibit a loss trend, the ALLL for new commercial loans is based primarily on peer group average annual historical net charge-off rates by loan class and the Company's internal credit risk rating system. The allowance is comprised of specific reserves for loans that are individually evaluated and determined to be impaired as well as general reserves for individually evaluated loans determined not to be impaired and loans that do not meet our established threshold for individual evaluation.

Commercial relationships graded substandard or doubtful and on non-accrual status with committed credit facilities greater than or equal to \$1 million are individually evaluated for impairment. For loans evaluated individually for impairment and determined to be impaired, a specific allowance is established based on the present value of expected cash flows discounted at the loan's effective interest rate, the estimated fair value of the loan, or the estimated fair value of collateral less costs to sell. Loans modified in TDRs are also evaluated individually for impairment. We believe that loans rated special mention, substandard or doubtful that are not individually evaluated for impairment exhibit characteristics indicative of a heightened level of credit risk. Loss factors for these loans are determined by using default frequency and severity information applied at the loan level. Estimated default frequencies and severities are based on available industry data.

With the exception of the Pinnacle municipal finance portfolio, a four quarter loss emergence period is used in the calculation of general reserves. A twelve quarter loss emergence period is used in the calculation of general reserves

for the Pinnacle portfolio.

The peer group used to calculate the average annual historical net charge-off rates that form the basis for our general reserve calculations for new commercial, home equity and consumer loans is made up of the banks included in the OCC Midsize Bank Group plus two additional banks in the New York region that management believes to be comparable based on size and nature of lending operations. The OCC Midsize Bank Group primarily includes commercial banks with total assets ranging from \$10 - \$50 billion and included 28 banks at June 30, 2016. Peer bank data is obtained from the Statistics on

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Depository Institutions Report published by the FDIC for the most recent quarter available. These banks, as a group, are considered by management to be comparable to BankUnited in size, nature of lending operations and loan portfolio composition. We evaluate the composition of the peer group annually, or more frequently if, in our judgment, a more frequent evaluation is necessary. The general loss factor for municipal finance receivables is based on a historical cumulative default curve for municipal obligations of credit quality comparable to those in the Company's portfolio.

Beginning in the first quarter of 2016, we extended the loss experience period used to calculate peer group average annual net charge-off rates from 12 quarters to 16 quarters. We believe this extension of the look back period is appropriate at this time to capture a sufficient range of observations reflecting the performance of our loans, most of which were originated in the current economic cycle, and to reflect recent indications that the U.S. economy continues to move through the credit cycle. We believe the 16-quarter look back period to be consistent with the range of industry practice. Extending the look back period to 16 quarters resulted in an increase in the ALLL of approximately \$9 million as of March 31, 2016, as compared to using a 12-quarter look back period at the same date. This increase was largely offset by reductions in certain qualitative loss factors from December 31, 2015 to March 31, 2016. The framework used to determine qualitative reserves was not revised.

Our internal risk rating system comprises 13 credit grades; grades 1 through 8 are "pass" grades. The risk ratings are driven largely by debt service coverage. Peer group historical loss rates are adjusted upward for loans assigned a lower "pass" rating.

Qualitative Factors

Qualitative adjustments are made to the ALLL when, based on management's judgment, there are internal or external factors impacting probable incurred losses not taken into account by the quantitative calculations. Potential qualitative adjustments are categorized as follows:

- Portfolio performance trends, including trends in and the levels of delinquencies, non-performing loans and classified loans;
- Changes in the nature of the portfolio and terms of the loans, specifically including the volume and nature of policy and procedural exceptions;
- Portfolio growth trends;
- Changes in lending policies and procedures, including credit and underwriting guidelines;
- Economic factors, including unemployment rates and GDP growth rates;
- Changes in the value of underlying collateral;
- Quality of risk ratings, as evaluated by our independent loan review function;
- Credit concentrations;
- Changes in and experience levels of credit administration management and staff; and
- Other factors identified by management that may impact the level of losses inherent in the portfolio, including but not limited to competition and legal and regulatory requirements.

ACI Loans

For ACI loans, a valuation allowance is established when periodic evaluations of expected cash flows reflect a decrease resulting from credit related factors from the level of cash flows that were estimated to be collected at acquisition plus any additional expected cash flows arising from revisions in those estimates. We perform a quarterly analysis of expected cash flows for ACI loans.

Expected cash flows are estimated on a pool basis for ACI 1-4 single family residential and home equity loans. The analysis of expected pool cash flows incorporates updated pool level expected prepayment rate, default rate, delinquency level and loss severity given default assumptions. Prepayment, delinquency and default curves are derived primarily from roll rates generated from the historical performance of the portfolio over the immediately preceding four quarters. Estimates of default probability and loss severity given default also incorporate updated LTV ratios, at the loan level, based on Case-Shiller Home Price Indices for the relevant MSA. Costs and fees represent an additional component of loss on default and are projected using the "Making Home Affordable" cost factors provided by the Federal government. The ACI home equity roll rates include the impact of delinquent, related senior liens and loans to borrowers who have not reaffirmed their debt discharged in Chapter 7 bankruptcy.

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Based on our projected cash flow analysis, no ALLL related to 1-4 single family residential and home equity ACI pools was recorded at June 30, 2016 or December 31, 2015.

The primary assumptions underlying estimates of expected cash flows for ACI commercial loans are default probability and severity of loss given default. Assessments of default probability and severity are based on net realizable value analyses prepared at the individual loan level. Based on our analysis, no ALLL related to ACI commercial loans was recorded at June 30, 2016 or December 31, 2015.

The following tables provide an analysis of the ALLL, provision for loan losses and net charge-offs for the periods indicated (in thousands):

	Six Months Ended June 30, 2016			
	New Loans	ACI Loans	Non-ACI Loans	Total
Balance at December 31, 2015	\$ 120,960	\$ —	-\$ 4,868	\$ 125,828
Provision for (recovery of) loan losses:				
1-4 single family residential	(2,259)	—	123	(2,136)
Home equity loans and lines of credit	2	—	(767)	(765)
Multi-family	278	—	—	278
Commercial real estate				
Owner occupied	2,980	—	—	2,980
Non-owner occupied	3,879	—	—	3,879
Construction and land	154	—	—	154
Commercial and industrial	13,853	—	(30)	13,823
Commercial finance subsidiaries	(35)	—	—	(35)
Consumer	(137)	—	—	(137)
Total Provision	18,715	—	(674)	18,041
Charge-offs:				
1-4 single family residential	—	—	(312)	(312)
Home equity loans and lines of credit	—	—	(527)	(527)
Commercial real estate				
Owner occupied	(1,496)	—	—	(1,496)
Non-owner occupied	(128)	—	—	(128)
Commercial and industrial	(6,077)	—	—	(6,077)
Commercial lending subsidiaries	(1,432)	—	—	(1,432)
Total Charge-offs	(9,133)	—	(839)	(9,972)
Recoveries:				
Home equity loans and lines of credit	—	—	68	68
Commercial real estate				
Owner occupied	158	—	—	158
Non-owner occupied	—	—	—	—
Commercial and industrial	274	—	30	304
Commercial lending subsidiaries	1,278	—	—	1,278
Consumer	13	—	—	13
Total Recoveries	1,723	—	98	1,821
Net Charge-offs:	(7,410)	—	(741)	(8,151)
Balance at June 30, 2016	\$ 132,265	\$ —	-\$ 3,453	\$ 135,718

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	Six Months Ended June 30, 2015			
	New Loans	ACI Loans	Non-ACI Loans	Total
Balance at December 31, 2014	\$91,350	\$	-\$4,192	\$95,542
Provision for (recovery of) loan losses:				
1-4 single family residential	3,724	—	(385)	3,339
Home equity loans and lines of credit	2	—	11	13
Multi-family	4,103	—	(4)	4,099
Commercial real estate				
Owner occupied	(498)	—	—	(498)
Non-owner occupied	2,145	—	—	2,145
Construction and land	98	—	—	98
Commercial and industrial	1,366	—	(28)	1,338
Commercial finance subsidiaries	6,048	—	—	6,048
Consumer	(14)	—	—	(14)
Provision for loan losses:	16,974	—	(406)	16,568
Charge-offs:				
Home equity loans and lines of credit	—	—	(1,269)	(1,269)
Commercial and industrial	(1,195)	—	—	(1,195)
Commercial lending subsidiaries	(3,088)	—	—	(3,088)
Total Charge-offs	(4,283)	—	(1,269)	(5,552)
Recoveries:				
Home equity loans and lines of credit	—	—	21	21
Multi-family	—	—	4	4
Commercial and industrial	720	—	28	748
Commercial lending subsidiaries	31	—	—	31
Consumer	23	—	—	23
Total Recoveries	774	—	53	827
Net Charge-offs:	(3,509)	—	(1,216)	(4,725)
Balance at June 30, 2015	\$104,815	\$	-\$2,570	\$107,385

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The following tables show the distribution of the ALLL, broken out between covered and non-covered loans, at the dates indicated (dollars in thousands):

	June 30, 2016			
		Covered		
	New	Loans	Total	% ⁽¹⁾
	Loans	ACI	Loans	
		Non-ACI		
		Loans		
Residential:				
1 - 4 single family residential	\$8,827	\$—	\$9,202	21.0 %
Home equity loans and lines of credit	6	—3,078	3,084	0.3 %
	8,833	—3,453	12,286	21.3 %
Commercial:				
Multi-family	22,595	—	22,595	20.3 %
Commercial real estate				
Owner occupied	9,132	—	9,132	8.8 %
Non-owner occupied	29,930	—	29,930	19.0 %
Construction and land	3,741	—	3,741	2.2 %
Commercial and industrial	41,711	—	41,711	16.4 %
Commercial lending subsidiaries	16,194	—	16,194	11.8 %
	123,303	—	123,303	78.5 %
Consumer	129	—	129	0.2 %
	\$132,265	\$—	\$135,718	100.0%
	December 31, 2015			
		Covered		
	New	Loans	Total	% ⁽¹⁾
	Loans	ACI	Loans	
		Non-ACI		
		Loans		
Residential:				
1 - 4 single family residential	\$11,086	\$—	\$11,650	21.9 %
Home equity loans and lines of credit	4	—4,304	4,308	0.4 %
	11,090	—4,868	15,958	22.3 %
Commercial:				
Multi-family	22,317	—	22,317	20.9 %
Commercial real estate				
Owner occupied	7,490	—	7,490	8.2 %
Non-owner occupied	26,179	—	26,179	17.5 %
Construction and land	3,587	—	3,587	2.1 %
Commercial and industrial	33,661	—	33,661	16.7 %
Commercial lending subsidiaries	16,383	—	16,383	12.1 %
	109,617	—	109,617	77.5 %
Consumer	253	—	253	0.2 %
	\$120,960	\$—	\$125,828	100.0%

(1) Represents percentage of loans receivable in each category to total loans receivable.

The balance of the ALLL for new loans at June 30, 2016 as compared to December 31, 2015 reflects the impact of the following offsetting factors: (i) an increase related to growth of the new loan portfolio, (ii) an increase in peer group historical loss rates resulting primarily from the extension of the look back period as discussed above, (iii) an increase in reserves for classified loans, and (iv) a decrease in qualitative reserves. A decrease in the qualitative factor related to economic conditions

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was the most significant component of the overall net decrease in qualitative reserves. Factors influencing the change in the ALLL as related to specific loan types at June 30, 2016 as compared to December 31, 2015, include:

• A decrease of \$2.3 million for new 1-4 family residential loans primarily reflected decreases in qualitative loss factors related to economic conditions and loan policy exceptions.

• A \$3.8 million increase for new non-owner occupied commercial real estate loans was attributable to the growth of the corresponding loan portfolio, partially offset by net decreases in qualitative loss factors.

• An increase of \$8.1 million for new commercial and industrial loans was primarily driven by increases in reserves for classified loans, including taxi medallion loans. In total, the reserve for taxi medallion loans increased by \$4.2 million.

• A decrease of \$0.2 million for commercial lending subsidiaries, in spite of the growth of the portfolio, was primarily attributable to the charge-off of specific reserves on one relationship.

• The decrease in the reserve for non-ACI loans resulted primarily from a decline in related portfolio balances and an improvement in roll rates for the home equity segment.

For additional information about the ALLL, see Note 4 to the consolidated financial statements.

Equipment under Operating Lease

Equipment under operating lease primarily consists of railcars leased to North American commercial end-users. The portfolio also includes non-commercial aircraft and other land transport equipment. At June 30, 2016, our operating lease fleet consisted of 4,482 rail cars, including hoppers, tank cars, boxcars, auto carriers, and center beams; 1,182 trailers; 34 tractors; 18 forklifts; and 2 helicopters. The largest concentrations of rail cars were 2,125 hopper cars and 1,534 tank cars, primarily used to ship sand and petroleum products, respectively, for the energy industry. Equipment with a carrying value of \$291 million at June 30, 2016 was leased to companies for use in the energy industry, of which three operating lease relationships with assets under lease totaling \$52 million were internally risk rated special mention or substandard at June 30, 2016.

There have been no significant impairments of residuals or asset carrying values, missed payments or time off-lease related to the operating lease portfolio to date. One lease was restructured in July 2016, with no decrease in total minimum lease payments.

The primary risks inherent in the equipment leasing business are asset risk resulting from ownership of the equipment on operating lease and credit risk. Asset risk arises from fluctuations in supply and demand for the underlying leased equipment. Railcars are long-lived equipment with useful lives of approximately 35-50 years. The equipment is leased to commercial end-users with lease terms ranging from 3-10 years at June 30, 2016. We are exposed to the risk that, at the end of the lease term, the value of the asset will be lower than expected, potentially resulting in reduced future lease income over the remaining life of the asset or a lower sale value. Asset risk may also lead to changes in depreciation as a result of changes in the residual values of the operating lease assets or through impairment of asset carrying values.

Asset risk is evaluated and managed by an internal team of leasing professionals with a broad depth and breadth of experience in the leasing business. Additionally, we have partnered with an industry leading, experienced service provider who provides fleet management and servicing, including lease administration and reporting, a Regulation Y compliant full service maintenance program and railcar remarketing. Risk is managed by setting appropriate residual values at inception and systematic reviews of residual values based on independent appraisals, performed at least annually. Additionally, our internal management team and our external service provider closely follow the rail markets, monitoring traffic flows, supply and demand trends and the impact of new technologies and regulatory requirements. Demand for railcars is sensitive to shifts in general and industry specific economic and market trends and shifts in trade flows from specific events such as natural or man-made disasters. We seek to mitigate these risks by leasing to a stable end-user base, by maintaining a relatively young and diversified fleet of assets that are expected to maintain stronger and more stable utilization rates despite impacts from unexpected events or cyclical trends and by staggering lease maturities. We regularly monitor the impact of lower oil prices on the estimated residual value of rail cars being used in the petroleum/natural gas extraction sector.

Credit risk in the leased equipment portfolio results from the potential default of lessees, possibly driven by obligor specific or industry-wide conditions, and is economically less significant than asset risk, because in the operating lease business, there is no extension of credit to the obligor. Instead, the lessor deploys a portion of the useful life of the

asset. Credit losses, if any, will manifest through reduced rental income due to missed payments, time off lease, or lower rental payments due either to a restructuring or re-leasing of the asset to another obligor. Credit risk in the operating lease portfolio is managed and monitored utilizing credit administration infrastructure, processes and procedures similar to those used to manage and

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monitor credit risk in the commercial loan portfolio. We also mitigate credit risk in this portfolio by leasing only to high credit quality obligors.

We expect our operating lease portfolio to continue to grow, and we may expand into other asset classes. We are not currently increasing our exposure to the energy sector.

Deposits

A breakdown of deposits at the dates indicated is as follows (in thousands):

	June 30, 2016			
	Florida	New York	Brokered Deposits	Total
Commercial non-time deposits	\$5,077,099	\$3,148,230	\$4,414	\$8,229,743
Consumer non-time deposits	3,220,639	225,253	1,059,916	4,505,808
Time deposits	4,970,973	31,228	494,301	5,496,502
	\$13,268,711	\$3,404,711	\$1,558,631	\$18,232,053
	December 31, 2015			
	Florida	New York	Brokered Deposits	Total
Commercial non-time deposits	\$5,032,117	\$2,796,501	\$3,352	\$7,831,970
Consumer non-time deposits	3,301,366	384,864	812,210	4,498,440
Time deposits	4,267,708	26,631	313,752	4,608,091
	\$12,601,191	\$3,207,996	\$1,129,314	\$16,938,501

Average balances and rates paid on deposits were as follows for the periods indicated (dollars in thousands):

	Three Months Ended June 30,				Six Months Ended June 30,			
	2016		2015		2016		2015	
	Average Balance	Average Rate Paid	Average Balance	Average Rate Paid	Average Balance	Average Rate Paid	Average Balance	Average Rate Paid
Demand deposits:								
Non-interest bearing	\$2,943,378	— %	\$2,675,306	— %	\$2,926,585	— %	\$2,708,808	— %
Interest bearing	1,435,252	0.59 %	1,121,215	0.46 %	1,292,458	0.61 %	1,016,051	0.46 %
Money market	7,729,817	0.63 %	6,041,055	0.56 %	7,693,062	0.62 %	5,786,875	0.55 %
Savings	422,537	0.23 %	561,635	0.33 %	437,012	0.24 %	573,440	0.33 %
Time	5,189,699	1.12 %	4,190,187	1.11 %	4,979,686	1.10 %	4,116,330	1.12 %
	\$17,720,683	0.66 %	\$14,589,398	0.60 %	\$17,328,803	0.64 %	\$14,201,504	0.59 %

The following table shows scheduled maturities of certificates of deposit with denominations greater than or equal to \$100,000 as of June 30, 2016 (in thousands):

Three months or less	\$753,077
Over three through six months	555,235
Over six through twelve months	1,435,901
Over twelve months	1,087,549
	\$3,831,762

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FHLB Advances, Notes and Other Borrowings

In addition to deposits, we utilize FHLB advances to fund growth in interest earning assets; the advances provide us with additional flexibility in managing both term and cost of funding. FHLB advances are secured by FHLB stock, qualifying residential first mortgage, commercial real estate and home equity loans, and MBS.

The contractual balance of FHLB advances outstanding at June 30, 2016 is scheduled to mature as follows (in thousands):

Maturing in:

2016—31 days or less	\$2,150,000
2016—Over 31 days	1,165,000
2017	1,480,000
2018	75,000
2020	75,000
Total contractual balance outstanding	4,945,000
Unamortized modification costs	(1,097)
Carrying value	\$4,943,903

Outstanding senior notes payable and other borrowings consisted of the following at the dates indicated (dollars in thousands):

	June 30, 2016	December 31, 2015
Senior notes	\$392,788	\$ 392,326
Capital lease obligations	9,974	10,219
	\$402,762	\$ 402,545

Senior notes have a face amount of \$400 million, a fixed coupon rate of 4.875% and mature on November 17, 2025.

Capital Resources

Pursuant to the FDIA, the federal banking agencies have adopted regulations setting forth a five-tier system for measuring the capital adequacy of the financial institutions they supervise. At June 30, 2016 and December 31, 2015, BankUnited and the Company had capital levels that exceeded both the regulatory well-capitalized guidelines and all internal capital ratio targets.

Stockholders' equity increased to \$2.3 billion at June 30, 2016, an increase of \$87 million, or 3.9%, from December 31, 2015 due primarily to the retention of earnings.

The following table provides information regarding regulatory capital ratios for the Company and its banking subsidiary as of June 30, 2016 (dollars in thousands):

	Actual		Required to be Considered Well Capitalized		Required to be Considered Adequately Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
BKU:						
Tier 1 leverage	\$2,218,353	8.74 %	N/A ⁽¹⁾	N/A ⁽¹⁾	\$1,015,757	4.00 %
CET1 risk-based capital	\$2,218,353	11.83 %	\$1,218,907	6.50 %	\$843,859	4.50 %
Tier 1 risk-based capital	\$2,218,353	11.83 %	\$1,500,194	8.00 %	\$1,125,145	6.00 %
Total risk based capital	\$2,360,953	12.59 %	\$1,875,242	10.00 %	\$1,500,194	8.00 %
BankUnited:						
Tier 1 leverage	\$2,443,407	9.67 %	\$1,264,016	5.00 %	\$1,011,213	4.00 %
CET1 risk-based capital	\$2,443,407	13.09 %	\$1,213,189	6.50 %	\$839,900	4.50 %
Tier 1 risk-based capital	\$2,443,407	13.09 %	\$1,493,155	8.00 %	\$1,119,867	6.00 %
Total risk based capital	\$2,583,722	13.84 %	\$1,866,444	10.00 %	\$1,493,155	8.00 %

(1) There is no Tier 1 leverage ratio component in the definition of a well-capitalized bank holding company.

Liquidity

Liquidity involves our ability to generate adequate funds to support planned asset growth, particularly growth of the new loan portfolio, meet deposit withdrawal requests, maintain reserve requirements, conduct routine operations, pay dividends, service outstanding debt and meet other contractual obligations.

Primary sources of liquidity include cash flows from operations, cash generated by the repayment and resolution of loans acquired in the FSB Acquisition, cash payments received from the FDIC pursuant to the Residential Shared Loss Agreement, deposit growth, the available for sale securities portfolio and FHLB advances.

For the six months ended June 30, 2016 and 2015, net cash provided by operating activities was \$143.4 million and \$76.2 million, respectively. Accretion on ACI loans, which is reflected as a non-cash reduction in net income to arrive at operating cash flows, totaled \$153.4 million and \$143.8 million for the six months ended June 30, 2016 and 2015, respectively. Accretable yield on ACI loans represents the excess of expected future cash flows over the carrying amount of the loans, and is recognized as interest income over the expected lives of the loans. Amounts recorded as accretion are realized in cash as individual loans are paid down or otherwise resolved; however, the timing of cash realization may differ from the timing of income recognition. These cash flows from the repayment or resolution of loans acquired in the FSB Acquisition, inclusive of amounts that have been accreted through earnings over time, are recognized as cash flows from investing activities in the consolidated statements of cash flows upon receipt. Cash generated by the repayment and resolution of loans acquired in the FSB Acquisition totaled \$276.4 million and \$328.7 million for the six months ended June 30, 2016 and 2015, respectively. Cash payments from the FDIC in the form of reimbursements of losses related to the covered loans under the Loss Sharing Agreements are also characterized as investing cash flows. These reimbursements from the FDIC totaled \$18.0 million and \$29.1 million for the six months ended June 30, 2016 and 2015, respectively. Both cash generated by the repayment and resolution of loans acquired in the FSB Acquisition and cash payments received from the FDIC have been and are expected to continue to be consistent and relatively predictable sources of liquidity.

The percentage of assets comprised of ACI loans and percentage of interest income comprised of ACI accretion continues to decrease. As expected, cash flows from resolution of the loans acquired in the FSB Acquisition are being replaced by operating cash flows from new assets originated with those proceeds, resulting in increasing cash inflows from operating activities for the six months ended June 30, 2016 compared to the corresponding period in 2015. In addition to cash provided by operating activities, the repayment and resolution of covered loans and payments under the Single Family Shared-Loss Agreement from the FDIC, BankUnited's liquidity needs, particularly liquidity to fund growth of the new loan portfolio, have been and continue to be met by deposit growth, its amortizing investment portfolio, and FHLB advances.

BankUnited has access to additional liquidity through FHLB advances, other collateralized borrowings, wholesale deposits or the sale of available for sale securities. At June 30, 2016, unencumbered investment securities available for sale totaled \$3.4 billion. At June 30, 2016, BankUnited had available borrowing capacity at the FHLB of \$2.3 billion, unused borrowing capacity at the FRB of \$442 million and unused Federal funds lines of credit totaling \$70 million. Management also has the

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ability to exert substantial control over the rate and timing of growth of the new loan portfolio, and resultant requirements for liquidity to fund new loans.

Continued runoff of the covered loan portfolio and FDIC indemnification asset and growth of deposits and the new loan portfolio are the most significant trends expected to impact the Bank's liquidity in the near term.

The ALCO policy has established several measures of liquidity which are monitored monthly by ALCO and quarterly by the Board of Directors. One measure of liquidity monitored by management is the 30 day total liquidity ratio, defined as (a) the sum of cash and cash equivalents, pledgeable securities, a measure of funds expected to be generated by operations over the next 30 days, and borrowing capacity from the FHLB and brokered deposits; divided by (b) the sum of potential deposit runoff, liabilities maturing and a measure of funds expected to be used in operations over the next 30 days. BankUnited's liquidity is considered acceptable if the 30 day total liquidity ratio exceeds 100%. At June 30, 2016, BankUnited's 30 day total liquidity ratio was 144%. Management also monitors a one year liquidity ratio, defined as (a) cash and cash equivalents, pledgeable securities, unused borrowing capacity at the FHLB, and loans and non-agency securities maturing within one year; divided by (b) deposits and borrowings maturing within one year. The maturity of deposits, excluding certificate of deposits, is based on retention rates derived from the most recent external core deposit analysis obtained by the Company. This ratio allows management to monitor liquidity over a longer time horizon. The acceptable threshold established by ALCO for this liquidity measure is 100%. At June 30, 2016, BankUnited's one year liquidity ratio was 141%. Additional measures of liquidity regularly monitored by ALCO include the ratio of FHLB advances to tier 1 capital plus the ALLL, the ratio of FHLB advances to total assets, a measure of available liquidity to volatile liabilities and brokered deposits to total deposits. At June 30, 2016, BankUnited was within acceptable limits established by ALCO for each of these measures.

As a holding company, BankUnited, Inc. is a corporation separate and apart from its banking subsidiary, and therefore, provides for its own liquidity. BankUnited, Inc.'s main sources of funds include management fees and dividends from the Bank, access to capital markets and, to a lesser extent, its own available for sale securities portfolio. There are regulatory limitations that affect the ability of the Bank to pay dividends to BankUnited, Inc. Management believes that such limitations will not impact our ability to meet our ongoing near-term cash obligations. We expect that our liquidity requirements will continue to be satisfied over the next 12 months through the sources of funds described above.

Interest Rate Risk

The principal component of the Company's risk of loss arising from adverse changes in the fair value of financial instruments, or market risk, is interest rate risk, including the risk that assets and liabilities with similar re-pricing characteristics may not reprice at the same time or to the same degree. The primary objective of the Company's asset/liability management activities is to maximize net interest income, while maintaining acceptable levels of interest rate risk. The ALCO is responsible for establishing policies to limit exposure to interest rate risk, and to ensure procedures are established to monitor compliance with these policies. The guidelines established by ALCO are approved at least annually by the Board of Directors.

Management believes that the simulation of net interest income in different interest rate environments provides the most meaningful measure of interest rate risk. Income simulation analysis is designed to capture not only the potential of all assets and liabilities to mature or reprice, but also the probability that they will do so. Income simulation also attends to the relative interest rate sensitivities of these items, and projects their behavior over an extended period of time. Finally, income simulation permits management to assess the probable effects on the balance sheet not only of changes in interest rates, but also of proposed strategies for responding to them.

The income simulation model analyzes interest rate sensitivity by projecting net interest income over the next twenty-four months in a most likely rate scenario based on forward interest rate curves versus net interest income in alternative rate scenarios. Simulations are generated based on both static and dynamic balance sheet assumptions. Management continually reviews and refines its interest rate risk management process in response to the changing economic climate. Currently, our model projects a plus 100, plus 200, plus 300 and plus 400 basis point change with rates increasing by the magnitude of the rate ramp evenly over the next 12 months as well as flattening yield curve scenarios and instantaneous rate shocks of plus 100, 200, 300 and 400 basis points. We continually evaluate the scenarios being modeled with a view toward adapting them to changing economic conditions, expectations and trends.

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The Company's ALCO policy has established that interest income sensitivity will be considered acceptable if forecast net interest income, based on a dynamic forecasted balance sheet, in the plus 100, plus 200, plus 300 and plus 400 basis point rate shock scenarios is within specified percentages of forecast net interest income in the most likely rate scenario over the next twelve months and in the second year. The following table illustrates the acceptable limits and the impact on forecasted net interest income of plus 100, plus 200, plus 300 and plus 400 basis point rate shock scenarios at June 30, 2016:

	Plus 100	Plus 200	Plus 300	Plus 400
Acceptable limits:				
Next twelve months	6.0%	10.0%	14.0%	18.0%
Over twelve to twenty-four months	9.0%	13.0%	17.0%	21.0%
June 30, 2016:				
Next twelve months	2.7%	5.7 %	8.6 %	11.7%
Over twelve to twenty-four months	3.4%	7.0 %	10.6%	14.7%

Management also simulates changes in EVE in various interest rate environments. The ALCO policy has established parameters of acceptable risk that are defined in terms of the percentage change in EVE from a base scenario under six rate scenarios, derived by implementing immediate parallel movements of plus and minus 100, 200 and 300 basis points from current rates. We did not simulate decreases in interest rates at June 30, 2016 due to the current low rate environment. The parameters established by ALCO stipulate that the modeled decline in EVE is considered acceptable if the decline is less than 8%, 13% and 18% in plus 100, 200 and 300 basis point scenarios, respectively. As of June 30, 2016, our simulation for the Company indicated percentage changes from base EVE of (4.1)%, (9.4)% and (14.8)% in plus 100, 200, and 300 basis point scenarios, respectively.

These measures fall within an acceptable level of interest rate risk per the policies established by ALCO and the Board of Directors. In the event the models indicate an unacceptable level of risk, the Company could undertake a number of actions that would reduce this risk, including the sale or re-positioning of a portion of its available for sale investment portfolio, restructuring of borrowings, or the use of derivatives such as interest rate swaps and caps.

Many assumptions were used by the Company to calculate the impact of changes in interest rates, including the change in rates. Actual results may not be similar to the Company's projections due to several factors including the timing and frequency of rate changes, market conditions, changes in depositor behavior and the shape of the yield curve. Actual results may also differ due to the Company's actions, if any, in response to changing rates and conditions.

Derivative Financial Instruments

Interest rate swaps are one of the tools we use to manage interest rate risk. These derivative instruments are used to mitigate exposure to changes in interest rates on variable rate borrowings such as FHLB advances and time deposits and to manage duration of liabilities. These interest rate swaps are designated as cash flow hedging instruments. The fair value of these instruments is included in other assets and other liabilities in our consolidated balance sheets and changes in fair value are reported in accumulated other comprehensive income. At June 30, 2016, outstanding interest rate swaps designated as cash flow hedges had an aggregate notional amount of \$2.1 billion. The aggregate fair value of interest rate swaps designated as cash flow hedges included in other liabilities was \$91 million. There were no interest rate swaps designated as cash flow hedges included in other assets.

Interest rate swaps and caps not designated as cash flow hedges had an aggregate notional amount of \$1.8 billion at June 30, 2016. The aggregate fair value of these interest rate swaps and caps included in other assets was \$61 million and the aggregate fair value included in other liabilities was \$61 million. These interest rate swaps and caps were entered into as accommodations to certain of our commercial borrowers.

See Note 7 to the Consolidated Financial Statements for additional information about derivative financial instruments.

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Off-Balance Sheet Arrangements

Commitments

We routinely enter into commitments to extend credit to our customers, including commitments to fund loans or lines of credit and commercial and standby letters of credit. The credit risk associated with these commitments is essentially the same as that involved in extending loans to customers and they are subject to our normal credit policies and approval processes. While these commitments represent contractual cash requirements, a significant portion of commitments to extend credit may expire without being drawn upon. The following table details our outstanding commitments to extend credit as of June 30, 2016 (in thousands):

Commitments to fund loans	\$651,824
Commitments to purchase loans	162,515
Unfunded commitments under lines of credit	1,715,763
Commercial and standby letters of credit	74,330
	\$2,604,432

Critical Accounting Policies and Estimates

The Company has made no significant changes in its critical accounting policies and significant estimates from those disclosed in the 2015 Annual Report on Form 10-K.

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Non-GAAP Financial Measures

Tangible book value per common share is a non-GAAP financial measure. Management believes this measure is relevant to understanding the capital position and performance of the Company. Disclosure of this non-GAAP financial measure also provides a meaningful base for comparability to other financial institutions. The following table reconciles the non-GAAP financial measurement of tangible book value per common share to the comparable GAAP financial measurement of book value per common share at June 30, 2016 (in thousands except share and per share data):

Total stockholders' equity	\$ 2,331,146
Less: goodwill and other intangible assets	78,185
Tangible stockholders' equity	\$ 2,252,961
Common shares issued and outstanding	104,166,800
Book value per common share	\$ 22.38
Tangible book value per common share	\$ 21.63

Item 3. Quantitative and Qualitative Disclosures About Market Risk

See the section entitled “Interest Rate Risk” included in Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

Item 4. Controls and Procedures

As of the end of the period covered by this Form 10-Q, we carried out an evaluation under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as defined in Exchange Act Rules 13a-15(e) and 15d-15(e). Based upon that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that our disclosure controls and procedures were effective.

During the quarter ended June 30, 2016, there were no changes in the Company’s internal control over financial reporting that materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The Company is involved as plaintiff or defendant in various legal actions arising in the normal course of business. In the opinion of management, based upon advice of legal counsel, the likelihood is remote that the impact of these proceedings, either individually or in the aggregate, would be material to the Company's consolidated financial position, results of operations or cash flows.

Item 1A. Risk Factors

There have been no material changes in the risk factors disclosed by the Company in its 2015 Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 26, 2016.

Item 6. Exhibits

Exhibit Number	Description	Location
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Filed herewith
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Filed herewith
101.INS	XBRL Instance Document	Filed herewith
101.SCH	XBRL Taxonomy Extension Schema	Filed herewith
101.CAL	XBRL Taxonomy Extension Calculation Linkbase	Filed herewith
101.DEF	XBRL Taxonomy Extension Definition Linkbase	Filed herewith
101.LAB	XBRL Taxonomy Extension Label Linkbase	Filed herewith
101.PRE	XBRL Taxonomy Extension Presentation Linkbase	Filed herewith

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SIGNATURE

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 this 5th day of August 2016.

/s/ John A. Kanas

John A. Kanas

Chairman, President and Chief Executive Officer

/s/ Leslie N. Lunak

Leslie N. Lunak

Chief Financial Officer

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