

BankUnited, Inc.  
Form 10-Q  
May 09, 2013  
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**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 March 31, 2013

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)

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**Delaware**  
(State or other jurisdiction  
of incorporation or organization)

**27-0162450**  
(I.R.S. Employer  
Identification No.)

**14817 Oak Lane, Miami Lakes, FL**  
(Address of principal executive offices)

**33016**  
(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**  
Common Stock, \$0.01 Par Value

**May 6, 2013**  
100,470,335 Shares

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**BankUnited, Inc.**

**Form 10-Q**

**For the Quarter Ended March 31, 2013**

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

|   | March 31,<br>2013 | December 31,<br>2012 |
|---|-------------------|----------------------|
| <b>ASSETS</b>   |                   |                      |
| Cash and due from banks:  |                   |                      |
| Non-interest bearing  | \$ 51,948         | \$ 61,088            |
| Interest bearing  | 21,206            | 21,507               |
| Interest bearing deposits at Federal Reserve Bank   | 384,462           | 408,827              |
| Federal funds sold  | 3,563             | 3,931                |
| Cash and cash equivalents   | 461,179           | 495,353              |
| Investment securities available for sale, at fair value (including covered securities of \$224,765 and \$226,505) | 4,279,477         | 4,172,412            |
| Non-marketable equity securities  | 134,821           | 133,060              |
| Loans held for sale   | 2,407             | 2,129                |
| Loans (including covered loans of \$1,757,162 and \$1,864,375)  | 5,843,841         | 5,571,739            |
| Allowance for loan and lease losses   | (61,023)          | (59,121)             |
| Loans, net  | 5,782,818         | 5,512,618            |
| FDIC indemnification asset  | 1,400,915         | 1,457,570            |
| Bank owned life insurance   | 205,308           | 207,069              |
| Other real estate owned (including covered OREO of \$68,423 and \$76,022)   | 68,893            | 76,022               |
| Deferred tax asset, net   | 54,377            | 62,274               |
| Goodwill and other intangible assets  | 69,586            | 69,768               |
| Other assets  | 286,149           | 187,678              |
| Total assets  | \$ 12,745,930     | \$ 12,375,953        |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>  |                   |                      |
| <b>Liabilities:</b>   |                   |                      |
| Demand deposits:  |                   |                      |
| Non-interest bearing  | \$ 1,364,804      | \$ 1,312,779         |
| Interest bearing  | 563,525           | 542,561              |
| Savings and money market  | 4,196,944         | 4,042,022            |
| Time  | 2,620,150         | 2,640,711            |
| Total deposits  | 8,745,423         | 8,538,073            |
| Short-term borrowings   | 1,245             | 8,175                |
| Federal Home Loan Bank advances   | 2,016,456         | 1,916,919            |
| Other liabilities   | 139,011           | 106,106              |
| Total liabilities   | 10,902,135        | 10,569,273           |
| <b>Commitments and contingencies</b>  |                   |                      |

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**Stockholders equity:**

|  |               |               |
|--|---------------|---------------|
| Common stock, par value \$0.01 per share, 400,000,000 shares authorized; 100,453,851 and 95,006,729 shares issued and outstanding                    | 1,005         | 950           |
| Preferred stock, par value \$0.01 per share, 100,000,000 shares authorized; 5,415,794 shares of Series A issued and outstanding at December 31, 2012 |               | 54            |
| Paid-in capital  | 1,312,518     | 1,308,315     |
| Retained earnings  | 439,908       | 413,385       |
| Accumulated other comprehensive income   | 90,364        | 83,976        |
| Total stockholders equity  | 1,843,795     | 1,806,680     |
| Total liabilities and stockholders equity  | \$ 12,745,930 | \$ 12,375,953 |

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

Table of Contents**BANKUNITED, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF INCOME UNAUDITED****(In thousands, except per share data)**

|  | <b>Three Months Ended March 31,</b> |             |
|--|-------------------------------------|-------------|
|  | <b>2013</b>                         | <b>2012</b> |
| <b>Interest income:</b>  |                                     |             |
| Loans  | \$ 145,091                          | \$ 136,297  |
| Investment securities available for sale   | 30,005                              | 33,039      |
| Other  | 1,279                               | 954         |
| Total interest income  | 176,375                             | 170,290     |
| <b>Interest expense:</b>   |                                     |             |
| Deposits   | 14,881                              | 16,960      |
| Borrowings   | 7,707                               | 15,521      |
| Total interest expense   | 22,588                              | 32,481      |
| Net interest income before provision for loan losses   | 153,787                             | 137,809     |
| Provision for loan losses (including \$4,800 and \$1,600 for covered loans)  | 11,967                              | 8,767       |
| Net interest income after provision for loan losses  | 141,820                             | 129,042     |
| <b>Non-interest income:</b>  |                                     |             |
| (Amortization) accretion of FDIC indemnification asset   | (2,280)                             | 6,787       |
| Income from resolution of covered assets, net  | 19,190                              | 7,282       |
| Net gain (loss) on indemnification asset   | (11,687)                            | 134         |
| FDIC reimbursement of costs of resolution of covered assets  | 2,864                               | 6,516       |
| Service charges and fees   | 3,342                               | 3,055       |
| Gain (loss) on sale of loans, net (including loss related to covered loans of \$(772) for the three months ended March 31, 2013) | (586)                               | 256         |
| Gain on sale of investment securities available for sale, net  | 1,686                               | 16          |
| Mortgage insurance income  | 271                                 | 3,690       |
| Other non-interest income  | 5,043                               | 8,662       |
| Total non-interest income  | 17,843                              | 36,398      |
| <b>Non-interest expense:</b>   |                                     |             |
| Employee compensation and benefits   | 43,075                              | 46,625      |
| Occupancy and equipment  | 15,042                              | 11,822      |
| Impairment of other real estate owned  | 1,280                               | 3,547       |
| (Gain) loss on sale of other real estate owned   | (1,031)                             | 1,401       |
| Other real estate owned expense  | 868                                 | 2,276       |
| Foreclosure expense  | 505                                 | 2,719       |
| Deposit insurance expense  | 1,937                               | 1,150       |
| Professional fees  | 5,422                               | 3,649       |
| Telecommunications and data processing   | 3,368                               | 3,230       |
| Other non-interest expense   | 10,043                              | 7,699       |
| Total non-interest expense   | 80,509                              | 84,118      |
| Income before income taxes   | 79,154                              | 81,322      |
| Provision for income taxes   | 30,928                              | 31,050      |
| Net income   | 48,226                              | 50,272      |
| Preferred stock dividends  |                                     | 921         |
| Net income available to common stockholders  | \$ 48,226                           | \$ 49,351   |
| Earnings per common share, basic (see Note 2)  | \$ 0.48                             | \$ 0.49     |
| Earnings per common share, diluted (see Note 2)  | \$ 0.47                             | \$ 0.49     |
| Cash dividends declared per common share   | \$ 0.21                             | \$ 0.17     |

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

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

|   | <b>Three Months Ended March 31,</b> |             |
|---|-------------------------------------|-------------|
|   | <b>2013</b>                         | <b>2012</b> |
| Net income  | \$ 48,226                           | \$ 50,272   |
| Other comprehensive income, net of tax:                                 |                                     |             |
| Unrealized gains on investment securities available for sale:           |                                     |             |
| Net unrealized holding gains arising during the period                  | 6,465                               | 24,615      |
| Reclassification adjustment for net securities gains realized in income | (1,036)                             | (10)        |
| Net change in unrealized gains on securities available for sale         | 5,429                               | 24,605      |
| Unrealized losses on derivative instruments:                            |                                     |             |
| Net unrealized holding loss arising during the period                   | (1,618)                             | (631)       |
| Reclassification adjustment for net losses realized in income           | 2,577                               | 2,721       |
| Net change in unrealized losses on derivative instruments               | 959                                 | 2,090       |
| Other comprehensive income  | 6,388                               | 26,695      |
| Comprehensive income  | \$ 54,614                           | \$ 76,967   |

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



Table of Contents**BANKUNITED, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS - UNAUDITED**

(In thousands)

|  | <b>Three Months Ended March 31,</b> |             |
|--|-------------------------------------|-------------|
|  | <b>2013</b>                         | <b>2012</b> |
| <b>Cash flows from operating activities:</b>   |                                     |             |
| Net income   | \$ 48,226                           | \$ 50,272   |
| Adjustments to reconcile net income to net cash used in operating activities:              |                                     |             |
| Amortization and accretion, net  | (101,797)                           | (121,512)   |
| Provision for loan losses  | 11,967                              | 8,767       |
| Income from resolution of covered assets, net  | (19,190)                            | (7,282)     |
| Net (gain) loss on indemnification asset   | 11,687                              | (134)       |
| (Gain) loss on sale of loans, net  | 586                                 | (256)       |
| Increase in cash surrender value of bank owned life insurance                              | (612)                               | (935)       |
| Income from life insurance proceeds  | (409)                               |             |
| Gain on sale of investment securities available for sale, net                              | (1,686)                             | (16)        |
| (Gain) loss on sale of other real estate owned   | (1,031)                             | 1,401       |
| Equity based compensation  | 3,380                               | 10,127      |
| Depreciation and amortization  | 4,825                               | 3,382       |
| Impairment of other real estate owned  | 1,280                               | 3,547       |
| Deferred income taxes  | 3,849                               | (69,364)    |
| Proceeds from sale of loans held for sale  | 8,672                               | 11,933      |
| Loans originated for sale, net of repayments   | (8,764)                             | (9,919)     |
| Realized tax (benefits) deficiency from dividend equivalents and equity based compensation | 66                                  | (118)       |
| Gain on acquisition  |                                     | (5,288)     |
| Other:   |                                     |             |
| Increase in other assets   | (13,572)                            | (2,478)     |
| Increase in other liabilities  | 5,166                               | 30,252      |
| Net cash used in operating activities  | (47,357)                            | (97,621)    |
| <b>Cash flows from investing activities:</b>   |                                     |             |
| Net cash paid in business combination  |                                     | (1,626)     |
| Purchase of investment securities available for sale                                       | (389,836)                           | (427,178)   |
| Proceeds from repayments of investment securities available for sale                       | 172,694                             | 135,802     |
| Proceeds from sale of investment securities available for sale                             | 68,019                              | 5,847       |
| Maturities and calls of investment securities available for sale                           |                                     | 4,250       |
| Purchase of non-marketable equity securities   | (7,511)                             | (26,700)    |
| Proceeds from redemption of non-marketable equity securities                               | 5,750                               |             |
| Purchases of loans   | (227,366)                           | (165,908)   |
| Loan originations, repayments and resolutions, net   | 26,983                              | (25,670)    |
| Proceeds from sale of loans, net   | 16,731                              |             |
| Decrease in FDIC indemnification asset for claims filed                                    | 42,688                              | 269,560     |
| Bank owned life insurance proceeds   | 2,782                               |             |
| Purchase of premises and equipment, net  | (6,595)                             | (8,462)     |
| Acquisition of equipment under operating lease   | (32,950)                            |             |
| Proceeds from sale of premises and equipment   | 1,300                               |             |
| Proceeds from sale of other real estate owned  | 31,673                              | 56,021      |
| Net cash used in investing activities  | (295,638)                           | (184,064)   |

(Continued)

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

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

|  | <b>Three Months Ended March 31,</b> |             |
|--|-------------------------------------|-------------|
|  | <b>2013</b>                         | <b>2012</b> |
| <b>Cash flows from financing activities:</b>   |                                     |             |
| Net increase in deposits   | 207,373                             | 285,490     |
| Additions to Federal Home Loan Bank advances   | 1,295,000                           | 230,000     |
| Repayments of Federal Home Loan Bank advances  | (1,195,000)                         | (230,000)   |
| Increase (decrease) in short-term borrowings   | (6,930)                             | 10,993      |
| Increase in advances from borrowers for taxes and insurance                                | 7,554                               | 8,169       |
| Dividends paid   |                                     | (14,888)    |
| Realized tax benefits (deficiency) from dividend equivalents and equity based compensation | (66)                                | 118         |
| Exercise of stock options  | 890                                 | 122         |
| Net cash provided by financing activities  | 308,821                             | 290,004     |
| Net increase (decrease) in cash and cash equivalents                                       | (34,174)                            | 8,319       |
| Cash and cash equivalents, beginning of period   | 495,353                             | 303,742     |
| Cash and cash equivalents, end of period   | \$ 461,179                          | \$ 312,061  |
| <b>Supplemental disclosure of cash flow information:</b>                                   |                                     |             |
| Interest paid  | \$ 23,958                           | \$ 37,895   |
| Income taxes paid  | \$ 39,030                           | \$ 73,095   |
| <b>Supplemental schedule of non-cash investing and financing activities:</b>               |                                     |             |
| Transfers from loans to other real estate owned  | \$ 24,793                           | \$ 44,182   |
| Dividends declared, not paid   | \$ 21,703                           | \$ 17,542   |
| Unsettled securities trades  | \$ 51,297                           | \$          |
| Conversion of Series A preferred stock to common stock                                     | \$ 54                               | \$          |
| Exchange of common stock for Series A preferred stock                                      | \$                                  | \$ 54       |
| Equity consideration issued in business combination  | \$                                  | \$ 39,861   |

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

Table of Contents**BANKUNITED, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY - UNAUDITED**

(In thousands, except share data)

|  | Common<br>Shares<br>Outstanding | Common<br>Stock | Preferred<br>Shares<br>Outstanding | Preferred<br>Stock | Paid-in<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income | Total<br>Stockholders<br>Equity |
|--|---------------------------------|-----------------|------------------------------------|--------------------|--------------------|----------------------|---|---------------------------------|
| Balance at December 31, 2012   | 95,006,729                      | \$ 950          | 5,415,794                          | \$ 54              | \$ 1,308,315       | \$ 413,385           | \$ 83,976                                       | \$ 1,806,680                    |
| Comprehensive income   |                                 |                 |                                    |                    |                    | 48,226               | 6,388   | 54,614                          |
| Conversion of preferred shares to<br>common shares                           | 5,415,794                       | 54              | (5,415,794)                        | (54)               |                    |                      |   |                                 |
| Dividends  |                                 |                 |                                    |                    |                    | (21,703)             |   | (21,703)                        |
| Equity based compensation  |                                 |                 |                                    |                    | 3,380              |                      |   | 3,380                           |
| Forfeiture of unvested shares  | (13,380)                        |                 |                                    |                    |                    |                      |   |                                 |
| Exercise of stock options  | 44,708                          | 1               |                                    |                    | 889                |                      |   | 890                             |
| Tax deficiency from dividend<br>equivalents and equity based<br>compensation |                                 |                 |                                    |                    | (66)               |                      |   | (66)                            |
| Balance at March 31, 2013  | 100,453,851                     | \$ 1,005        |                                    | \$                 | \$ 1,312,518       | \$ 439,908           | \$ 90,364                                       | \$ 1,843,795                    |
| Balance at December 31, 2011   | 97,700,829                      | \$ 977          |                                    | \$                 | \$ 1,240,068       | \$ 276,216           | \$ 18,019                                       | \$ 1,535,280                    |
| Comprehensive income   |                                 |                 |                                    |                    |                    | 50,272               | 26,695  | 76,967                          |
| Exchange of common shares for<br>preferred shares                            | (5,415,794)                     | (54)            | 5,415,794                          | 54                 |                    |                      |   |                                 |
| Equity consideration issued in<br>acquisition                                | 1,676,060                       | 17              |                                    |                    | 39,844             |                      |   | 39,861                          |
| Dividends  |                                 |                 |                                    |                    |                    | (17,542)             |   | (17,542)                        |
| Equity based compensation  | 27,250                          |                 |                                    |                    | 10,127             |                      |   | 10,127                          |
| Forfeiture of unvested shares  | (16,433)                        |                 |                                    |                    |                    |                      |   |                                 |
| Exercise of stock options  | 10,416                          |                 |                                    |                    | 122                |                      |   | 122                             |
| Tax benefits from dividend equivalents<br>and equity based compensation      |                                 |                 |                                    |                    | 118                |                      |   | 118                             |
| Balance at March 31, 2012  | 93,982,328                      | \$ 940          | 5,415,794                          | \$ 54              | \$ 1,290,279       | \$ 308,946           | \$ 44,714                                       | \$ 1,644,933                    |

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

March 31, 2013

**Note 1 Basis of Presentation and Summary of Significant Accounting Policies**

BankUnited, Inc. ( BankUnited, Inc. or BKU ) is a national bank holding company with two wholly-owned subsidiaries: BankUnited, National Association ( BankUnited or the Bank ) and BankUnited Investment Services, Inc. ( BUIS ), 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 97 branches located in 15 Florida counties and 2 branches located in the New York metropolitan area as of March 31, 2013. BUIS is a Florida insurance agency providing wealth management and financial planning services. The operations of BUIS have not historically been significant to the consolidated results of operations or financial position of the Company. We intend to discontinue the operations of BUIS in May 2013.

On February 29, 2012, BKU completed the acquisition of Herald National Bank ( Herald ), a national banking association located in the New York metropolitan area. In March 2013, Herald was merged into BankUnited.

On May 21, 2009, BankUnited acquired substantially all of the assets and assumed all of the non-brokered deposits and substantially all of the other liabilities of BankUnited, FSB from the Federal Deposit Insurance Corporation ( FDIC ) in a transaction referred to as the FSB Acquisition. Neither the Company nor the Bank had any substantive operations prior to May 21, 2009. In connection with the FSB Acquisition, BankUnited entered into Loss Sharing Agreements with the FDIC ( Loss Sharing Agreements ) that cover single family residential mortgage loans, commercial real estate, commercial and industrial and consumer loans, certain investment securities and other real estate owned ( OREO ), collectively referred to as the covered assets. Pursuant to the terms of the Loss Sharing Agreements, the covered assets are subject to a stated loss threshold whereby the FDIC will reimburse BankUnited for 80% of losses related to the covered assets up to \$4.0 billion and 95% of losses in excess of this amount, beginning with the first dollar of loss incurred.

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X of the Securities and Exchange Commission (the SEC ). Accordingly, they do not include all of the information and footnotes required for a fair presentation of financial position, results of operations and cash flows in conformity with U.S. generally accepted accounting principles ( GAAP ) and should be read in conjunction with the Company s consolidated financial statements and the notes thereto appearing in BKU s Annual Report on Form 10-K for the year ended December 31, 2012 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 months ended March 31, 2013 are not necessarily indicative of the results that may be expected in future periods.

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

*Accounting Estimates*

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

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

*Recent Accounting Pronouncements*

In December 2011, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update 2011-11, *Disclosures about Offsetting Assets and Liabilities*. This update requires entities to disclose both gross information and net information about instruments and transactions eligible for offset in the statement of

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BANKUNITED, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED

March 31, 2013

financial position and instruments and transactions subject to an agreement similar to a master netting arrangement. The scope of this update includes derivatives, sale and repurchase agreements and reverse sale and repurchase agreements and securities borrowing and lending arrangements. Accounting Standards Update 2013-01 clarifies certain of the provisions of Accounting Standards Update 2011-11. The Company adopted this update in the quarter ended March 31, 2013. The adopted update resulted in revised disclosures in the Company's financial statements, but did not have an impact on the Company's consolidated financial position, results of operations or cash flows.

In October 2012, the FASB issued Accounting Standards Update No. 2012-06, *Subsequent Accounting for an Indemnification Asset Recognized at the Acquisition Date as a Result of a Government-Assisted Acquisition of a Financial Institution*. The amendments in this update clarify the applicable guidance for subsequently measuring an indemnification asset recognized as a result of a government-assisted acquisition of a financial institution. The update provides that changes in cash flows expected to be collected on the indemnification asset arising subsequent to initial recognition as a result of changes in cash flows expected to be collected on the related indemnified assets should be accounted for on the same basis as the change in the assets subject to indemnification. Any amortization of changes in value should be recognized over the shorter of the expected lives of the related assets or the contractual term of the indemnification agreement. The requirements of the update are consistent with the Company's existing accounting policy; therefore, adoption of this update in the quarter ended March 31, 2013 did not have an impact on the Company's consolidated financial position, results of operations or cash flows.

In February 2013, the FASB issued Accounting Standards Update 2013-02, *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*. This update requires entities to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, entities are required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income. The Company adopted this update in the quarter ended March 31, 2013. The adopted update resulted in revised disclosures in the Company's financial statements, but did not have an impact on the Company's consolidated financial position, results of operations or cash flows.

**Note 2 Earnings Per Common Share**

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED

March 31, 2013

|  | Three Months Ended March 31, |                |
|--|------------------------------|----------------|
|  | 2013                         | 2012           |
| <b>Basic earnings per common share:</b>                                      |                              |                |
| <b>Numerator:</b>  |                              |                |
| Net income   | \$ 48,226                    | \$ 50,272      |
| Preferred stock dividends  |                              | (921)          |
| Net income available to common stockholders                                  | 48,226                       | 49,351         |
| Distributed and undistributed earnings allocated to participating securities | (3,019)                      | (3,261)        |
| Income allocated to common stockholders for basic earnings per common share  | \$ 45,207                    | \$ 46,090      |
| <b>Denominator:</b>  |                              |                |
| Weighted average common shares outstanding                                   | 96,121,473                   | 96,386,890     |
| Less average unvested stock awards   | (1,166,706)                  | (1,641,200)    |
| Weighted average shares for basic earnings per common share                  | 94,954,767                   | 94,745,690     |
| <b>Basic earnings per common share</b>                                       | <b>\$ 0.48</b>               | <b>\$ 0.49</b> |
| <b>Diluted earnings per common share:</b>                                    |                              |                |
| <b>Numerator:</b>  |                              |                |
| Income allocated to common stockholders for basic earnings per common share  | \$ 45,207                    | \$ 46,090      |
| Adjustment for earnings reallocated from participating securities            | 1,109                        | 4              |
| Income used in calculating diluted earnings per common share                 | \$ 46,316                    | \$ 46,094      |
| <b>Denominator:</b>  |                              |                |
| Average shares for basic earnings per common share                           | 94,954,767                   | 94,745,690     |
| Dilutive effect of stock options and preferred shares                        | 4,526,162                    | 166,030        |
| Weighted average shares for diluted earnings per common share                | 99,480,929                   | 94,911,720     |
| <b>Diluted earnings per common share</b>                                     | <b>\$ 0.47</b>               | <b>\$ 0.49</b> |

The following potentially dilutive securities were outstanding but excluded from the calculation of diluted earnings per common share because their inclusion would have been anti-dilutive:

|                              | March 31, |           |
|------------------------------|-----------|-----------|
|                              | 2013      | 2012      |
| Unvested shares              | 1,175,011 | 1,588,576 |
| Stock options and warrants   | 6,569,128 | 6,986,454 |
| Convertible preferred shares |           | 5,415,794 |

**Note 3 Investment Securities Available for Sale**

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





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March 31, 2013

|  | March 31, 2013    |   |          |               |                   |   |            |               |
|--|-------------------|---|----------|---------------|-------------------|---|------------|---------------|
|  | Amortized<br>Cost | Covered Securities<br>Gross Unrealized<br>Gains | Losses   | Fair<br>Value | Amortized<br>Cost | Non-Covered Securities<br>Gross Unrealized<br>Gains | Losses     | Fair<br>Value |
| U.S. Government agency and sponsored enterprise residential mortgage-backed securities | \$                | \$  | \$       | \$            | \$ 1,567,919      | \$ 59,389   | \$         | \$ 1,627,308  |
| U.S. Government agency and sponsored enterprise commercial mortgage-backed securities  |                   |   |          |               | 58,343            | 1,733   |            | 60,076        |
| Resecuritized real estate mortgage investment conduits ( Re-Remics )                   |                   |   |          |               | 527,110           | 10,911  |            | 538,021       |
| Private label residential mortgage-backed securities and CMOs                          | 138,275           | 60,116  | (52)     | 198,339       | 202,806           | 3,335   | (257)      | 205,884       |
| Private label commercial mortgage-backed securities                                    |                   |   |          |               | 495,695           | 17,430  | (739)      | 512,386       |
| Collateralized loan obligations  |                   |   |          |               | 373,733           | 1,617   |            | 375,350       |
| Non-mortgage asset-backed securities   |                   |   |          |               | 224,782           | 8,010   | (131)      | 232,661       |
| Mutual funds and preferred stocks  | 16,382            | 3,277   | (528)    | 19,131        | 125,118           | 7,770   | (5)        | 132,883       |
| State and municipal obligations  |                   |   |          |               | 25,379            | 295   | (13)       | 25,661        |
| Small Business Administration securities   |                   |   |          |               | 326,664           | 17,818  |            | 344,482       |
| Other debt securities  | 3,509             | 3,786   |          | 7,295         |                   |   |            |               |
|  | \$ 158,166        | \$ 67,179                                       | \$ (580) | \$ 224,765    | \$ 3,927,549      | \$ 128,308  | \$ (1,145) | \$ 4,054,712  |

|  | December 31, 2012 |   |        |               |                   |   |        |               |
|--|-------------------|---|--------|---------------|-------------------|---|--------|---------------|
|  | Amortized<br>Cost | Covered Securities<br>Gross Unrealized<br>Gains | Losses | Fair<br>Value | Amortized<br>Cost | Non-Covered Securities<br>Gross Unrealized<br>Gains | Losses | Fair<br>Value |
| U.S. Treasury and Government agency securities   | \$                | \$  | \$     | \$            | \$ 34,998         | \$ 157  | \$ (1) | \$ 35,154     |
| U.S. Government agency and sponsored enterprise residential mortgage-backed securities |                   |   |        |               | 1,520,047         | 64,476  |        | 1,584,523     |
| U.S. Government agency and sponsored enterprise commercial mortgage-backed securities  |                   |   |        |               | 58,518            | 1,898   |        | 60,416        |
| Re-Remics  |                   |   |        |               | 575,069           | 10,063  | (90)   | 585,042       |
| Private label residential mortgage-backed securities and CMOs                          | 143,739           | 58,266  | (185)  | 201,820       | 243,029           | 3,437   | (201)  | 246,265       |
| Private label commercial mortgage-backed securities                                    |                   |   |        |               | 413,110           | 19,982  |        | 433,092       |
| Collateralized loan obligations  |                   |   |        |               | 252,280           | 908   |        | 253,188       |

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|  |            |           |          |            |              |            |          |              |
|--|------------|-----------|----------|------------|--------------|------------|----------|--------------|
| Non-mortgage asset-backed securities     |            |           |          |            | 233,791      | 7,672      | (117)    | 241,346      |
| Mutual funds and preferred stocks        | 16,382     | 1,439     | (361)    | 17,460     | 125,127      | 7,066      |          | 132,193      |
| State and municipal obligations          |            |           |          |            | 25,127       | 249        | (23)     | 25,353       |
| Small Business Administration securities |            |           |          |            | 333,423      | 6,187      |          | 339,610      |
| Other debt securities                    | 3,723      | 3,502     |          | 7,225      | 9,164        | 561        |          | 9,725        |
|  | \$ 163,844 | \$ 63,207 | \$ (546) | \$ 226,505 | \$ 3,823,683 | \$ 122,656 | \$ (432) | \$ 3,945,907 |

At March 31, 2013, 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<br>Cost | Fair<br>Value |
|---|-------------------|---------------|
| Due in one year or less                                   | \$ 640,992        | \$ 681,294    |
| Due after one year through five years                     | 1,911,409         | 1,995,849     |
| Due after five years through ten years                    | 1,148,112         | 1,191,082     |
| Due after ten years                                       | 243,702           | 259,238       |
| Mutual funds and preferred stocks with no stated maturity | 141,500           | 152,014       |
|   | \$ 4,085,715      | \$ 4,279,477  |

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Based on the Company's proprietary assumptions, the estimated weighted average life of the investment portfolio as of March 31, 2013 was 4.2 years. The effective duration of the investment portfolio as of March 31, 2013 was 1.9 years. The model results are based on assumptions that may differ from actual results.

The carrying value of securities pledged as collateral for FHLB advances, public deposits, interest rate swaps, securities sold under agreements to repurchase and to secure borrowing capacity at the Federal Reserve Bank totaled \$0.9 billion at March 31, 2013 and December 31, 2012.

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

|  | Three Months Ended March 31, |          |
|--|------------------------------|----------|
|  | 2013                         | 2012     |
| Proceeds from sale of investment securities available for sale | \$ 119,316                   | \$ 5,847 |
| Gross realized gains   | \$ 1,689                     | \$ 19    |
| Gross realized losses  | (3)                          | (3)      |
| Net realized gain  | \$ 1,686                     | \$ 16    |

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):

|   | Less than 12 Months |                   | March 31, 2013 |                   | Total      |                   |
|---|---------------------|-------------------|----------------|-------------------|------------|-------------------|
|   | Fair Value          | Unrealized Losses | Fair Value     | Unrealized Losses | Fair Value | Unrealized Losses |
| Private label residential mortgage-backed securities and CMOs | \$ 22,790           | \$ (258)          | \$ 1,366       | \$ (51)           | \$ 24,156  | \$ (309)          |
| Private label commercial mortgage-backed securities           | 93,800              | (739)             |                |                   | 93,800     | (739)             |
| Non-mortgage asset-backed securities                          |                     |                   | 8,541          | (131)             | 8,541      | (131)             |
| Mutual funds and preferred stocks                             | 1,982               | (5)               | 14,915         | (528)             | 16,897     | (533)             |

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|                                 |            |            |           |          |            |            |
|---------------------------------|------------|------------|-----------|----------|------------|------------|
| State and municipal obligations | 1,567      | (13)       |           |          | 1,567      | (13)       |
|                                 | \$ 120,139 | \$ (1,015) | \$ 24,822 | \$ (710) | \$ 144,961 | \$ (1,725) |

|   | Less than 12 Months |                   | December 31, 2012<br>12 Months or Greater |                   | Total      |                   |
|---|---------------------|-------------------|---|-------------------|------------|-------------------|
|   | Fair Value          | Unrealized Losses | Fair Value                                | Unrealized Losses | Fair Value | Unrealized Losses |
| U.S. Treasury and Government agency securities                | \$ 5,000            | \$ (1)            | \$  | \$                | \$ 5,000   | \$ (1)            |
| Re-Remics   | 42,018              | (16)              | 8,833                                     | (74)              | 50,851     | (90)              |
| Private label residential mortgage-backed securities and CMOs | 53,537              | (185)             | 6,080                                     | (201)             | 59,617     | (386)             |
| Non-mortgage asset-backed securities                          |                     |                   | 10,566                                    | (117)             | 10,566     | (117)             |
| Mutual funds and preferred stocks                             |                     |                   | 15,082                                    | (361)             | 15,082     | (361)             |
| State and municipal obligations                               | 2,902               | (23)              |   |                   | 2,902      | (23)              |
|   | \$ 103,457          | \$ (225)          | \$ 40,561                                 | \$ (753)          | \$ 144,018 | \$ (978)          |

The Company monitors its investment securities available for sale for other-than-temporary impairment ( OTTI ) on an individual security basis. No securities were determined to be other than temporarily impaired during the three months ended March 31, 2013 and 2012. 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

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securities before recovery of the amortized cost basis, which may be at maturity. At March 31, 2013, 15 securities were in unrealized loss positions. The amount of impairment related to five of these securities was considered insignificant, totaling approximately \$9.8 thousand, and no further analysis with respect to these securities was considered necessary. The basis for concluding that impairment of the remaining securities is not other-than-temporary is further described below:

*Private label residential mortgage-backed securities and CMOs:*

At March 31, 2013, four private label residential mortgage-backed securities were in unrealized loss positions. These securities were assessed for OTTI using third-party developed credit and prepayment behavioral models and CUSIP level constant default rates, voluntary prepayment rates and loss severity and delinquency assumptions. The results of these assessments were not indicative of credit losses related to any of these securities as of March 31, 2013. Three of the securities had been in unrealized loss positions for five months or less and evidenced unrealized losses less than 2% of amortized cost; the remaining security had been in an unrealized loss position for 21 months and evidenced an unrealized loss of approximately 5% of amortized cost. The market for this security is very thin and the market price is adversely affected by lack of liquidity. This bond is considered an odd lot which can be detrimental to potential bids for the security. Given the generally limited duration and severity of impairment and the expectation of timely recovery of outstanding principal, the impairments were considered to be temporary.

*Private label commercial mortgage backed securities:*

At March 31, 2013, two private label commercial mortgage backed securities were in unrealized loss positions. These securities had been in unrealized loss positions for three months or less and the amount of impairment was less than 2% of amortized cost. These securities were assessed for OTTI using third-party developed models, incorporating assumptions consistent with the collateral characteristics of each security. The results of this analysis were not indicative of expected credit losses. Given the limited severity and duration of impairment and the expectation of timely recovery of outstanding principal, the impairment is considered to be temporary.

*Non-mortgage asset-backed securities:*

At March 31, 2013, two non-mortgage asset-backed securities were in unrealized loss positions. These securities had been in unrealized loss positions for 24 months and the amount of impairment of each of the individual securities was less than 2% of amortized cost. These securities were assessed for OTTI using a third-party developed credit and prepayment behavioral model and CUSIP level constant default rates, voluntary prepayment rates and loss severity and delinquency assumptions. The results of this evaluation were not indicative of credit losses related to these securities as of March 31, 2013. Given the limited severity of impairment and the expectation of timely recovery of outstanding principal, the impairments were considered to be temporary.

*Mutual funds:*

At March 31, 2013, one mutual fund investment was in an unrealized loss position and had been in a continuous unrealized loss position for 31 months. The majority of the underlying holdings of the mutual fund are either explicitly or implicitly guaranteed by the U.S. Government. The unrealized loss related to this security was approximately 3% of its cost basis. Given the limited severity, the impairment was considered to be temporary.

*State and municipal obligations:*

At March 31, 2013, one municipal security was in an unrealized loss position and had been in a continuous unrealized loss position for eight months. The unrealized loss related to this security was approximately 2% of its cost basis. Given the limited duration and severity, the impairment was considered to be temporary.

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**Note 4 Loans and Allowance for Loan and Lease Losses**

A significant portion of the Company's loan portfolio consists of loans acquired in the FSB Acquisition. Substantially all of these loans are covered under BankUnited's Loss Sharing Agreements (the "covered loans"). Loans originated or purchased since the FSB Acquisition ("new loans") are not covered by the Loss Sharing Agreements. Covered loans may be further segregated between those acquired with evidence of deterioration in credit quality since origination ("Acquired Credit Impaired" or "ACI" loans) and those acquired without evidence of deterioration in credit quality since origination ("non-ACI" loans).

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

|   | Covered Loans |            | March 31, 2013<br>Non-Covered Loans |              | Total        | Percent of<br>Total |
|---|---------------|------------|-------------------------------------|--------------|--------------|---------------------|
|   | ACI           | Non-ACI    | ACI                                 | New Loans    |              |                     |
| <b>Residential:</b>                                       |               |            |                                     |              |              |                     |
| 1-4 single family residential                             | \$ 1,234,978  | \$ 88,677  | \$                                  | \$ 1,070,402 | \$ 2,394,057 | 41.0%               |
| Home equity loans and lines of credit                     | 50,229        | 151,331    |                                     | 1,643        | 203,203      | 3.5%                |
|   | 1,285,207     | 240,008    |                                     | 1,072,045    | 2,597,260    | 44.5%               |
| <b>Commercial:</b>  |               |            |                                     |              |              |                     |
| Multi-family  | 46,478        | 690        |                                     | 307,198      | 354,366      | 6.0%                |
| Commercial real estate                                    | 162,791       | 1,188      | 4,042                               | 941,734      | 1,109,755    | 19.0%               |
| Construction and land                                     | 15,802        | 820        |                                     | 77,728       | 94,350       | 1.6%                |
| Commercial and industrial                                 | 12,517        | 7,015      |                                     | 1,388,343    | 1,407,875    | 24.0%               |
| Lease financing   |               |            |                                     | 231,448      | 231,448      | 4.0%                |
|   | 237,588       | 9,713      | 4,042                               | 2,946,451    | 3,197,794    | 54.6%               |
| Consumer  | 1,953         |            |                                     | 48,669       | 50,622       | 0.9%                |
| Total loans   | 1,524,748     | 249,721    | 4,042                               | 4,067,165    | 5,845,676    | 100.0%              |
| Premiums, discounts and deferred fees and costs, net      |               | (17,307)   |                                     | 15,472       | (1,835)      |                     |
| Loans net of premiums, discounts, deferred fees and costs | 1,524,748     | 232,414    | 4,042                               | 4,082,637    | 5,843,841    |                     |
| Allowance for loan and lease losses                       | (4,790)       | (15,919)   |                                     | (40,314)     | (61,023)     |                     |
| Loans, net  | \$ 1,519,958  | \$ 216,495 | \$ 4,042                            | \$ 4,042,323 | \$ 5,782,818 |                     |



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|   | Covered Loans |            | December 31, 2012<br>Non-Covered Loans |              | Total        | Percent of<br>Total |
|---|---------------|------------|--|--------------|--------------|---------------------|
|   | ACI           | Non-ACI    | ACI                                    | New Loans    |              |                     |
| <b>Residential:</b>   |               |            |  |              |              |                     |
| 1-4 single family residential                                   | \$ 1,300,109  | \$ 93,438  | \$                                     | \$ 920,713   | \$ 2,314,260 | 41.5%               |
| Home equity loans and lines<br>of credit                        | 52,499        | 157,691    |  | 1,954        | 212,144      | 3.8%                |
|   | 1,352,608     | 251,129    |  | 922,667      | 2,526,404    | 45.3%               |
| <b>Commercial:</b>  |               |            |  |              |              |                     |
| Multi-family  | 56,148        | 716        |  | 307,183      | 364,047      | 6.5%                |
| Commercial real estate  | 173,732       | 910        | 4,087                                  | 794,706      | 973,435      | 17.5%               |
| Construction and land   | 18,064        | 829        |  | 72,361       | 91,254       | 1.6%                |
| Commercial and industrial                                       | 14,608        | 11,627     |  | 1,334,991    | 1,361,226    | 24.4%               |
| Lease financing   |               |            |  | 225,980      | 225,980      | 4.1%                |
|   | 262,552       | 14,082     | 4,087                                  | 2,735,221    | 3,015,942    | 54.1%               |
| Consumer  | 2,239         |            |  | 33,526       | 35,765       | 0.6%                |
| Total loans   | 1,617,399     | 265,211    | 4,087                                  | 3,691,414    | 5,578,111    | 100.0%              |
| Premiums, discounts and<br>deferred fees and costs, net         |               | (18,235)   |  | 11,863       | (6,372)      |                     |
| Loans net of premiums,<br>discounts, deferred fees and<br>costs | 1,617,399     | 246,976    | 4,087                                  | 3,703,277    | 5,571,739    |                     |
| Allowance for loan and<br>lease losses                          | (8,019)       | (9,874)    |  | (41,228)     | (59,121)     |                     |
| Loans, net  | \$ 1,609,380  | \$ 237,102 | \$ 4,087                               | \$ 3,662,049 | \$ 5,512,618 |                     |

At March 31, 2013 and December 31, 2012, the unpaid principal balance ( UPB ) of ACI loans was \$4.0 billion and \$4.2 billion, respectively.

During the three months ended March 31, 2013 and 2012, the Company purchased 1-4 single family residential loans totaling \$227.4 million and \$165.9 million, respectively.

At March 31, 2013, the Company had pledged real estate loans with UPB of approximately \$4.8 billion and carrying amounts of approximately \$2.8 billion as security for FHLB advances.

During the three months ended March 31, 2013, the Company sold covered 1-4 single family residential loans to third parties on a non-recourse basis. The following table summarizes the impact of these transactions (in thousands):

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|   |    |        |
|---|----|--------|
| Unpaid principal balance of loans sold                                  | \$ | 32,258 |
| Cash proceeds, net of transaction costs                                 | \$ | 16,731 |
| Carrying value of loans sold  |    | 7,265  |
| Net pre-tax impact on earnings, excluding gain on indemnification asset | \$ | 9,466  |
| Loss on sale of covered loans   | \$ | (772)  |
| Proceeds recorded in interest income                                    |    | 10,238 |
|   | \$ | 9,466  |
| Gain on indemnification asset   | \$ | 1,216  |

The Company did not sell any covered loans during the three months ended March 31, 2012.

For the three months ended March 31, 2013, loans with UPB of \$20.0 million were sold from a pool of ACI loans with a zero carrying value. Proceeds of the sale of loans from this pool were recorded in interest income. The loss on the sale of loans from the remaining pools was recorded in Gain (loss) on sale of loans, net in the

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accompanying consolidated statements of income. These losses were mitigated by increases in the FDIC indemnification asset, reflected in the consolidated statement of income line item Net gain (loss) on indemnification asset. Reimbursements from the FDIC under the terms of the Loss Sharing Agreements are calculated based on UPB rather than on the carrying value of the loans; therefore the amount of gain on indemnification asset reflected in the table above also includes amounts reimbursable from the FDIC related to loans sold from the pool with a zero carrying value.

**Allowance for loan and lease losses**

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

|  | March 31, 2013 |            |          | Three Months Ended |            |           |       | Total     |
|--|----------------|------------|----------|--------------------|------------|-----------|-------|-----------|
|  | Residential    | Commercial | Consumer | Residential        | Commercial | Consumer  |       |           |
| Beginning balance                        | \$ 19,164      | \$ 39,543  | \$ 414   | \$ 59,121          | \$ 10,175  | \$ 38,176 | \$ 51 | \$ 48,402 |
| Provision for (recovery of) loan losses: |                |            |          |                    |            |           |       |           |
| ACI loans                                |                | (1,403)    |          | (1,403)            |            | (1,011)   |       | (1,011)   |
| Non-ACI loans                            | 7,164          | (961)      |          | 6,203              | 3,790      | (1,179)   |       | 2,611     |
| New loans                                | (5,727)        | 12,771     | 123      | 7,167              | 1,242      | 5,934     | (9)   | 7,167     |
| Total provision                          | 1,437          | 10,407     | 123      | 11,967             | 5,032      | 3,744     | (9)   | 8,767     |
| Charge-offs:                             |                |            |          |                    |            |           |       |           |
| ACI loans                                |                | (1,826)    |          | (1,826)            |            | (730)     |       | (730)     |
| Non-ACI loans                            | (1,000)        | (105)      |          | (1,105)            | (503)      | (103)     |       | (606)     |
| New loans                                |                | (8,194)    | (20)     | (8,214)            |            | (583)     |       | (583)     |
| Total charge-offs                        | (1,000)        | (10,125)   | (20)     | (11,145)           | (503)      | (1,416)   |       | (1,919)   |
| Recoveries:                              |                |            |          |                    |            |           |       |           |
| Non-ACI loans                            | 11             | 936        |          | 947                | 2          | 1,166     |       | 1,168     |
| New loans                                |                | 113        | 20       | 133                |            | 55        | 1     | 56        |
| Total recoveries                         | 11             | 1,049      | 20       | 1,080              | 2          | 1,221     | 1     | 1,224     |
| Ending balance                           | \$ 19,612      | \$ 40,874  | \$ 537   | \$ 61,023          | \$ 14,706  | \$ 41,725 | \$ 43 | \$ 56,474 |

The impact of provisions for (recoveries of) losses on covered loans is significantly mitigated by increases (decreases) in the FDIC indemnification asset, recorded in the consolidated statement of income line item Net gain (loss) on indemnification asset. Increases in the FDIC indemnification asset of \$3.7 million and \$1.6 million were reflected in non-interest income for the three months ended March 31, 2013 and 2012, respectively, related to the provision for loan losses on covered loans, including both ACI and non-ACI loans.

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

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|   | March 31, 2013 |              |           |              | December 31, 2012 |              |           |              |
|---|----------------|--------------|-----------|--------------|-------------------|--------------|-----------|--------------|
|   | Residential    | Commercial   | Consumer  | Total        | Residential       | Commercial   | Consumer  | Total        |
| <b>Allowance for loan and lease losses:</b>                                     |                |              |           |              |                   |              |           |              |
| Ending balance  | \$ 19,612      | \$ 40,874    | \$ 537    | \$ 61,023    | \$ 19,164         | \$ 39,543    | \$ 414    | \$ 59,121    |
| Ending balance: non-ACI and new loans individually evaluated for impairment     | \$ 940         | \$ 6,609     | \$        | \$ 7,549     | \$ 984            | \$ 1,533     | \$        | \$ 2,517     |
| Ending balance: non-ACI and new loans collectively evaluated for impairment     | \$ 18,672      | \$ 29,475    | \$ 537    | \$ 48,684    | \$ 18,180         | \$ 29,991    | \$ 414    | \$ 48,585    |
| Ending balance: ACI   | \$             | \$ 4,790     | \$        | \$ 4,790     | \$                | \$ 8,019     | \$        | \$ 8,019     |
| Ending balance: non-ACI   | \$ 15,246      | \$ 673       | \$        | \$ 15,919    | \$ 9,071          | \$ 803       | \$        | \$ 9,874     |
| Ending balance: new loans   | \$ 4,366       | \$ 35,411    | \$ 537    | \$ 40,314    | \$ 10,093         | \$ 30,721    | \$ 414    | \$ 41,228    |
| <b>Loans:</b>   |                |              |           |              |                   |              |           |              |
| Ending balance (1)  | \$ 2,597,260   | \$ 3,197,794 | \$ 50,622 | \$ 5,845,676 | \$ 2,526,404      | \$ 3,015,942 | \$ 35,765 | \$ 5,578,111 |
| Ending balance: non-ACI and new loans individually evaluated for impairment (1) | \$ 6,225       | \$ 25,776    | \$        | \$ 32,001    | \$ 5,302          | \$ 24,698    | \$        | \$ 30,000    |
| Ending balance: non-ACI and new loans collectively evaluated for impairment (1) | \$ 1,305,828   | \$ 2,930,388 | \$ 48,669 | \$ 4,284,885 | \$ 1,168,494      | \$ 2,724,605 | \$ 33,526 | \$ 3,926,625 |
| Ending balance: ACI loans   | \$ 1,285,207   | \$ 241,630   | \$ 1,953  | \$ 1,528,790 | \$ 1,352,608      | \$ 266,639   | \$ 2,239  | \$ 1,621,486 |

(1) Ending balance of loans is before premiums, discounts, deferred fees and costs.

**Credit quality information - New and non-ACI loans**

Commercial relationships on non-accrual status with internal risk ratings of substandard or doubtful and with committed balances greater than or equal to \$500,000 as well as loans that have been modified in troubled debt restructurings ( TDRs ) are individually evaluated for impairment. The tables below present information about new and non-ACI loans individually evaluated for impairment and identified as impaired at the dates indicated (in thousands):

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|                                       | March 31, 2013         |                                |                                  | December 31, 2012      |                                |                                  |
|---------------------------------------|------------------------|--------------------------------|----------------------------------|------------------------|--------------------------------|----------------------------------|
|                                       | Recorded<br>Investment | Unpaid<br>Principal<br>Balance | Related<br>Specific<br>Allowance | Recorded<br>Investment | Unpaid<br>Principal<br>Balance | Related<br>Specific<br>Allowance |
| <b>New loans:</b>                     |                        |                                |                                  |                        |                                |                                  |
| With no specific allowance recorded:  |                        |                                |                                  |                        |                                |                                  |
| Multi-family                          | \$                     | \$                             | \$                               | \$ 3,649               | \$ 3,649                       | \$                               |
| Commercial real estate                | 1,534                  | 1,534                          |                                  | 1,564                  | 1,564                          |                                  |
| Commercial and industrial             | 8,530                  | 8,535                          |                                  | 9,858                  | 9,860                          |                                  |
| With a specific allowance recorded:   |                        |                                |                                  |                        |                                |                                  |
| Commercial and industrial             | 11,861                 | 11,867                         | 5,891                            | 4,377                  | 4,381                          | 649                              |
| Lease financing                       | 1,511                  | 1,511                          | 718                              | 1,677                  | 1,677                          | 884                              |
| Total:                                |                        |                                |                                  |                        |                                |                                  |
| Residential                           | \$                     | \$                             | \$                               | \$                     | \$                             | \$                               |
| Commercial                            | 23,436                 | 23,447                         | 6,609                            | 21,125                 | 21,131                         | 1,533                            |
|                                       | \$ 23,436              | \$ 23,447                      | \$ 6,609                         | \$ 21,125              | \$ 21,131                      | \$ 1,533                         |
| <b>Non-ACI loans:</b>                 |                        |                                |                                  |                        |                                |                                  |
| With no specific allowance recorded:  |                        |                                |                                  |                        |                                |                                  |
| 1-4 single family residential         | \$ 255                 | \$ 303                         | \$                               | \$ 375                 | \$ 446                         | \$                               |
| Home equity loans and lines of credit | 1,074                  | 1,094                          |                                  | 176                    | 179                            |                                  |
| Commercial real estate                |                        |                                |                                  | 59                     | 59                             |                                  |
| Commercial and industrial             | 2,327                  | 2,329                          |                                  | 3,506                  | 3,508                          |                                  |
| With a specific allowance recorded:   |                        |                                |                                  |                        |                                |                                  |
| 1-4 single family residential         | 3,700                  | 4,403                          | 927                              | 3,577                  | 4,252                          | 970                              |
| Home equity loans and lines of credit | 417                    | 425                            | 13                               | 417                    | 425                            | 14                               |
| Total:                                |                        |                                |                                  |                        |                                |                                  |
| Residential                           | \$ 5,446               | \$ 6,225                       | \$ 940                           | \$ 4,545               | \$ 5,302                       | \$ 984                           |
| Commercial                            | 2,327                  | 2,329                          |                                  | 3,565                  | 3,567                          |                                  |
|                                       | \$ 7,773               | \$ 8,554                       | \$ 940                           | \$ 8,110               | \$ 8,869                       | \$ 984                           |

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

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The following table presents the average recorded investment in impaired new and non-ACI loans for the periods indicated (in thousands):

|                                       | Three Months Ended March 31, |               |           |               |
|---------------------------------------|------------------------------|---------------|-----------|---------------|
|                                       | 2013                         |               | 2012      |               |
|                                       | New Loans                    | Non-ACI Loans | New Loans | Non-ACI Loans |
| <b>Residential:</b>                   |                              |               |           |               |
| 1-4 single family residential         | \$                           | \$ 3,954      | \$        | \$ 1,509      |
| Home equity loans and lines of credit |                              | 1,042         |           |               |
|                                       |                              | 4,996         |           | 1,509         |
| <b>Commercial:</b>                    |                              |               |           |               |
| Multi-family                          | 1,825                        |               | 1,844     |               |
| Commercial real estate                | 1,549                        | 30            |           | 275           |
| Construction and land                 |                              |               | 332       | 2,685         |
| Commercial and industrial             | 17,313                       | 2,917         | 4,002     | 2,496         |
| Lease financing                       | 1,594                        |               |           |               |
|                                       | 22,281                       | 2,947         | 6,178     | 5,456         |
|                                       | \$ 22,281                    | \$ 7,943      | \$ 6,178  | \$ 6,965      |

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

|                                       | March 31, 2013 |               | December 31, 2012 |               |
|---------------------------------------|----------------|---------------|-------------------|---------------|
|                                       | New Loans      | Non-ACI Loans | New Loans         | Non-ACI Loans |
| <b>Residential:</b>                   |                |               |                   |               |
| 1-4 single family residential         | \$ 92          | \$ 2,174      | \$ 155            | \$ 2,678      |
| Home equity loans and lines of credit |                | 9,447         |                   | 9,767         |
|                                       | 92             | 11,621        | 155               | 12,445        |
| <b>Commercial:</b>                    |                |               |                   |               |
| Commercial real estate                | 1,587          | 57            | 1,619             | 59            |
| Construction and land                 | 269            |               | 278               |               |
| Commercial and industrial             | 19,203         | 3,309         | 11,907            | 4,530         |
| Lease financing                       | 1,548          |               | 1,719             |               |
|                                       | 22,607         | 3,366         | 15,523            | 4,589         |
| Consumer                              | 45             |               |                   |               |
|                                       | \$ 22,744      | \$ 14,987     | \$ 15,678         | \$ 17,034     |

New and non-ACI loans contractually delinquent by 90 days or more and still accruing totaled \$0.7 million and \$0.2 million at March 31, 2013 and December 31, 2012, respectively. The amount of additional interest income that would have been recognized on non-accrual loans had they performed in accordance with their contractual terms is not material.

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The following tables summarize new and non-ACI loans that were modified in TDRs during the periods indicated, as well as new and non-ACI loans modified during the twelve months preceding March 31, 2013 and 2012, that experienced payment defaults during the periods indicated (dollars in thousands):



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|                                       | Three Months Ended March 31,             |                |  |                |  |                |  |        |
|---------------------------------------|--|----------------|--|----------------|--|----------------|--|--------|
|                                       | 2013                                     |                |  |                | 2012                                     |                |  |        |
|                                       | Loans Modified in TDRs During the Period |                | TDRs Experiencing Payment Defaults During the Period |                | Loans Modified in TDRs During the Period |                | TDRs Experiencing Payment Defaults During the Period |        |
| Number of TDRs                        | Recorded Investment                      | Number of TDRs | Recorded Investment                                  | Number of TDRs | Recorded Investment                      | Number of TDRs | Recorded Investment                                  |        |
| <b>New loans:</b>                     |  |                |  |                |  |                |  |        |
| Multi-family                          |  | \$             |  | \$             | 1  | \$ 3,688       |  | \$     |
| Commercial and industrial             | 1  | 533            | 2  | 677            | 1  | 245            |  |        |
|                                       | 1  | \$ 533         | 2  | \$ 677         | 2  | \$ 3,933       |  | \$     |
| <b>Non-ACI loans:</b>                 |  |                |  |                |  |                |  |        |
| 1-4 single family residential         | 2  | \$ 330         | 1  | \$ 159         |  | \$             |  | \$     |
| Home equity loans and lines of credit | 1  | 898            |  |                |  |                |  |        |
| Commercial real estate                |  |                |  |                |  |                | 1  | 189    |
| Commercial and industrial             |  |                |  |                |  |                | 1  | 42     |
|                                       | 3  | \$ 1,228       | 1  | \$ 159         |  | \$             | 2  | \$ 231 |

Modifications during the three months ended March 31, 2013 and 2012 included restructuring of the amount and timing of required periodic payments, modifications of interest rates, extensions of maturity and residential modifications under the U.S. Treasury Department's Home Affordable Modification Program ( HAMP ). Included in TDRs are residential loans to borrowers who have not reaffirmed their debt discharged in Chapter 7 bankruptcy. The total amount of such loans is not material. Because of the immateriality of the amount of loans modified in TDRs and nature of the modifications, the modifications did not have a material impact on the Company's consolidated financial statements or on the determination of the amount of the ALLL at March 31, 2013 and 2012.

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. Original loan to value ratio ( LTV ) and original FICO score are also important indicators of credit quality for the new 1-4 single family residential portfolio.

Internal risk ratings are considered the most meaningful indicator of credit quality for commercial loans. Internal risk ratings are a key factor in identifying loans that are individually evaluated for impairment and impact management's estimates of loss factors used in determining the amount of the ALLL. Internal risk ratings are updated on a continuous basis. Relationships with balances in excess of \$750,000 are re-evaluated at least annually and more frequently if circumstances indicate that a change in risk rating may be warranted. Loans exhibiting potential credit weaknesses that deserve management's close attention and that if left uncorrected may result in deterioration of the repayment capacity of the borrower are categorized as special mention. Loans with well-defined credit weaknesses, including payment defaults, declining collateral values, frequent overdrafts, operating losses, increasing balance sheet leverage, inadequate cash flow, project cost overruns, unreasonable construction delays, past due real estate taxes or exhausted interest reserves, are assigned an internal risk rating of substandard. A loan with a weakness so severe that collection in full is highly questionable or improbable will be assigned an internal risk rating of doubtful.

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

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**Residential credit exposure, based on delinquency status:**

|                            | March 31, 2013                |                                       | December 31, 2012             |                                       |
|----------------------------|-------------------------------|---------------------------------------|-------------------------------|---------------------------------------|
|                            | 1-4 Single Family Residential | Home Equity Loans and Lines of Credit | 1-4 Single Family Residential | Home Equity Loans and Lines of Credit |
| <b>New loans:</b>          |                               |                                       |                               |                                       |
| Current                    | \$ 1,081,813                  | \$ 1,643                              | \$ 927,859                    | \$ 1,811                              |
| Past due less than 90 days | 6,991                         |                                       | 7,619                         | 143                                   |
| Past due 90 days or more   | 311                           |                                       | 193                           |                                       |
|                            | \$ 1,089,115                  | \$ 1,643                              | \$ 935,671                    | \$ 1,954                              |
| <b>Non-ACI loans:</b>      |                               |                                       |                               |                                       |
| Current                    | \$ 70,006                     | \$ 135,547                            | \$ 71,096                     | \$ 140,975                            |
| Past due less than 90 days | 2,558                         | 3,329                                 | 5,057                         | 4,005                                 |
| Past due 90 days or more   | 1,944                         | 9,696                                 | 2,431                         | 9,767                                 |
|                            | \$ 74,508                     | \$ 148,572                            | \$ 78,584                     | \$ 154,747                            |

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

| LTV         | March 31, 2013 |             |                |              | December 31, 2012 |            |                |            |
|-------------|----------------|-------------|----------------|--------------|-------------------|------------|----------------|------------|
|             | FICO           |             | 761 or greater | Total        | FICO              |            | 761 or greater | Total      |
| 740 or less | 741 - 760      | 740 or less |                |              | 741 - 760         |            |                |            |
| 60% or less | \$ 60,684      | \$ 42,537   | \$ 251,726     | \$ 354,947   | \$ 62,433         | \$ 35,761  | \$ 217,249     | \$ 315,443 |
| 60% - 70%   | 38,079         | 51,210      | 199,087        | 288,376      | 29,138            | 41,863     | 159,068        | 230,069    |
| 70% - 80%   | 58,179         | 60,353      | 295,733        | 414,265      | 55,319            | 54,367     | 256,605        | 366,291    |
| 80% or more | 23,726         | 1,949       | 5,852          | 31,527       | 18,327            | 1,200      | 4,341          | 23,868     |
|             | \$ 180,668     | \$ 156,049  | \$ 752,398     | \$ 1,089,115 | \$ 165,217        | \$ 133,191 | \$ 637,263     | \$ 935,671 |

**Consumer credit exposure, based on delinquency status:**

|                            | March 31, 2013 | December 31, 2012 |
|----------------------------|----------------|-------------------|
| <b>New loans:</b>          |                |                   |
| Current                    | \$ 50,059      | \$ 33,488         |
| Past due less than 90 days | 7              | 54                |
| Past due 90 days or more   | 38             |                   |
|                            | \$ 50,104      | \$ 33,542         |



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**Commercial credit exposure, based on internal risk rating:**

|                       | March 31, 2013 |                        |                       |                           |                 |              | Total |
|-----------------------|----------------|------------------------|-----------------------|---------------------------|-----------------|--------------|-------|
|                       | Multi-Family   | Commercial Real Estate | Construction and Land | Commercial and Industrial | Lease Financing |              |       |
| <b>New loans:</b>     |                |                        |                       |                           |                 |              |       |
| Pass                  | \$ 302,401     | \$ 930,788             | \$ 77,140             | \$ 1,330,783              | \$ 231,586      | \$ 2,872,698 |       |
| Special mention       | 3,103          | 2,147                  |                       | 14,838                    |                 | 20,088       |       |
| Substandard           | 1,122          | 7,169                  | 269                   | 37,807                    | 1,548           | 47,915       |       |
| Doubtful              |                | 53                     |                       | 1,021                     |                 | 1,074        |       |
|                       | \$ 306,626     | \$ 940,157             | \$ 77,409             | \$ 1,384,449              | \$ 233,134      | \$ 2,941,775 |       |
| <b>Non-ACI loans:</b> |                |                        |                       |                           |                 |              |       |
| Pass                  | \$ 687         | \$ 1,131               | \$ 770                | \$ 3,341                  | \$              | \$ 5,929     |       |
| Substandard           |                | 57                     |                       | 2,723                     |                 | 2,780        |       |
| Doubtful              |                |                        |                       | 625                       |                 | 625          |       |
|                       | \$ 687         | \$ 1,188               | \$ 770                | \$ 6,689                  | \$              | \$ 9,334     |       |

|                       | December 31, 2012 |                        |                       |                           |                 |              | Total |
|-----------------------|-------------------|------------------------|-----------------------|---------------------------|-----------------|--------------|-------|
|                       | Multi-Family      | Commercial Real Estate | Construction and Land | Commercial and Industrial | Lease Financing |              |       |
| <b>New loans:</b>     |                   |                        |                       |                           |                 |              |       |
| Pass                  | \$ 299,303        | \$ 789,017             | \$ 71,724             | \$ 1,274,595              | \$ 226,022      | \$ 2,660,661 |       |
| Special mention       | 3,110             |                        |                       | 18,249                    |                 | 21,359       |       |
| Substandard           | 4,068             | 4,033                  | 278                   | 38,837                    | 1,719           | 48,935       |       |
| Doubtful              |                   | 55                     |                       | 1,100                     |                 | 1,155        |       |
|                       | \$ 306,481        | \$ 793,105             | \$ 72,002             | \$ 1,332,781              | \$ 227,741      | \$ 2,732,110 |       |
| <b>Non-ACI loans:</b> |                   |                        |                       |                           |                 |              |       |
| Pass                  | \$ 703            | \$ 851                 | \$ 775                | \$ 6,674                  | \$              | \$ 9,003     |       |
| Substandard           | 9                 | 59                     |                       | 3,882                     |                 | 3,950        |       |
| Doubtful              |                   |                        |                       | 692                       |                 | 692          |       |
|                       | \$ 712            | \$ 910                 | \$ 775                | \$ 11,248                 | \$              | \$ 13,645    |       |

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

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**New loans:**

|                                       |              |           |          |          |              |              |           |        |          |              |
|---------------------------------------|--------------|-----------|----------|----------|--------------|--------------|-----------|--------|----------|--------------|
| 1-4 single family residential         | \$ 1,081,813 | \$ 6,829  | \$ 162   | \$ 311   | \$ 1,089,115 | \$ 927,859   | \$ 7,458  | \$ 161 | \$ 193   | \$ 935,671   |
| Home equity loans and lines of credit | 1,643        |           |          |          | 1,643        | 1,811        | 143       |        |          | 1,954        |
| Multi-family                          | 306,626      |           |          |          | 306,626      | 306,481      |           |        |          | 306,481      |
| Commercial real estate                | 938,699      | 972       | 486      |          | 940,157      | 793,105      |           |        |          | 793,105      |
| Construction and land                 | 77,409       |           |          |          | 77,409       | 72,002       |           |        |          | 72,002       |
| Commercial and industrial             | 1,366,096    | 12,023    | 535      | 5,795    | 1,384,449    | 1,322,937    | 7,147     | 192    | 2,505    | 1,332,781    |
| Lease financing                       | 233,134      |           |          |          | 233,134      | 227,741      |           |        |          | 227,741      |
| Consumer                              | 50,059       |           | 7        | 38       | 50,104       | 33,488       | 9         | 45     |          | 33,542       |
|                                       | \$ 4,055,479 | \$ 19,824 | \$ 1,190 | \$ 6,144 | \$ 4,082,637 | \$ 3,685,424 | \$ 14,757 | \$ 398 | \$ 2,698 | \$ 3,703,277 |

**Non-ACI loans:**

|                                       |            |          |        |           |            |            |          |          |           |            |
|---------------------------------------|------------|----------|--------|-----------|------------|------------|----------|----------|-----------|------------|
| 1-4 single family residential         | \$ 70,006  | \$ 2,213 | \$ 345 | \$ 1,944  | \$ 74,508  | \$ 71,096  | \$ 4,448 | \$ 609   | \$ 2,431  | \$ 78,584  |
| Home equity loans and lines of credit | 135,547    | 2,942    | 387    | 9,696     | 148,572    | 140,975    | 2,170    | 1,835    | 9,767     | 154,747    |
| Multi-family                          | 687        |          |        |           | 687        | 712        |          |          |           | 712        |
| Commercial real estate                | 1,188      |          |        |           | 1,188      | 910        |          |          |           | 910        |
| Construction and land                 | 770        |          |        |           | 770        | 775        |          |          |           | 775        |
| Commercial and industrial             | 3,804      | 61       |        | 2,824     | 6,689      | 7,164      | 27       | 12       | 4,045     | 11,248     |
|                                       | \$ 212,002 | \$ 5,216 | \$ 732 | \$ 14,464 | \$ 232,414 | \$ 221,632 | \$ 6,645 | \$ 2,456 | \$ 16,243 | \$ 246,976 |

**ACI Loans**

The accretable yield on ACI loans represents the amount by which undiscounted expected future cash flows exceed carrying value. Changes in the accretable yield on ACI loans for the three months ended March 31, 2013 and the year ended December 31, 2012 were as follows (in thousands):

|  |              |
|--|--------------|
| Balance, December 31, 2011                       | \$ 1,523,615 |
| Reclassifications from non-accretable difference | 206,934      |

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|  |    |           |
|--|----|-----------|
| Accretion  |    | (444,483) |
| Balance, December 31, 2012                       |    | 1,286,066 |
| Reclassifications from non-accretable difference |    | 69,903    |
| Accretion  |    | (104,199) |
| Balance, March 31, 2013                          | \$ | 1,251,770 |