BankUnited, Inc.
Form 10-Q
August 08, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2013

OR

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

For the transition period from to

Commission File Number: 001-35039

BankUnited, Inc.

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

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

Class	**August 5, 2013**
Common Stock, $0.01 Par Value	100,708,999 Shares

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BankUnited, Inc.

Form 10-Q

For the Quarter Ended June 30, 2013

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

BANKUNITED, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS - UNAUDITED

(In thousands, except share and per share data)

	June 30, 2013	December 31, 2012
ASSETS		
Cash and due from banks:		
Non-interest bearing	$ 47,160	$ 61,088
Interest bearing	16,643	21,507
Interest bearing deposits at Federal Reserve Bank	147,237	408,827
Federal funds sold	2,512	3,931
Cash and cash equivalents	213,552	495,353
Investment securities available for sale, at fair value (including covered securities of $214,447 and $226,505)	4,146,283	4,172,412
Non-marketable equity securities	142,391	133,060
Loans held for sale	1,539	2,129
Loans (including covered loans of $1,646,946 and $1,864,375)	6,807,325	5,571,739
Allowance for loan and lease losses	(58,431)	(59,121)
Loans, net	6,748,894	5,512,618
FDIC indemnification asset	1,345,134	1,457,570
Bank owned life insurance	205,856	207,069
Other real estate owned (including covered OREO of $49,571 and $76,022)	50,041	76,022
Deferred tax asset, net	63,833	62,274
Goodwill and other intangible assets	69,413	69,768
Other assets	246,489	187,678
Total assets	$ 13,233,425	$ 12,375,953
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities:		
Demand deposits:		
Non-interest bearing	$ 1,594,003	$ 1,312,779
Interest bearing	573,169	542,561
Savings and money market	4,176,181	4,042,022
Time	2,687,562	2,640,711
Total deposits	9,030,915	8,538,073
Short-term borrowings	1,644	8,175
Federal Home Loan Bank advances	2,196,605	1,916,919
Other liabilities	151,552	106,106
Total liabilities	11,380,716	10,569,273
Commitments and contingencies		

Stockholders equity:				
Common stock, par value $0.01 per share, 400,000,000 shares authorized; 100,550,397 and 95,006,729 shares issued and outstanding		1,006		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		1,317,449		1,308,315
Retained earnings		472,190		413,385
Accumulated other comprehensive income		62,064		83,976
Total stockholders equity		1,852,709		1,806,680
Total liabilities and stockholders equity	$	13,233,425	$	12,375,953

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

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BANKUNITED, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME UNAUDITED

(In thousands, except per share data)

	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
Interest income:				
Loans	$ 154,760	$ 142,621	$ 299,851	$ 278,918
Investment securities available for sale	30,196	34,059	60,201	67,098
Other	1,142	1,235	2,421	2,189
Total interest income	186,098	177,915	362,473	348,205
Interest expense:				
Deposits	14,158	17,047	29,039	34,007
Borrowings	7,890	15,071	15,597	30,592
Total interest expense	22,048	32,118	44,636	64,599
Net interest income before provision for (recovery of) loan losses	164,050	145,797	317,837	283,606
Provision for (recovery of) loan losses (including $(2,951), $(1,484), $1,849 and $116 for covered loans)	4,881	2,725	16,848	11,492
Net interest income after provision for (recovery of) loan losses	159,169	143,072	300,989	272,114
Non-interest income:				
(Amortization) accretion of FDIC indemnification asset	(7,150)	4,294	(9,430)	11,081
Income from resolution of covered assets, net	20,580	14,803	39,770	22,085
Net loss on indemnification asset	(17,683)	(12,537)	(29,370)	(12,403)
FDIC reimbursement of costs of resolution of covered assets	2,261	3,333	5,125	9,849
Service charges and fees	3,379	3,229	6,721	6,345
Gain (loss) on sale of loans, net (including loss related to covered loans of $(4,311) and $(5,082) for the three and six months ended June 30, 2013)	(4,115)	253	(4,701)	509
Gain on investment securities available for sale, net (including loss related to covered securities of $(963) for the three and six months ended June 30, 2013)	3,536	880	5,222	896
Mortgage insurance income	631	2,649	902	6,339
Other non-interest income	4,641	4,762	9,684	13,363
Total non-interest income	6,080	21,666	23,923	58,064
Non-interest expense:				
Employee compensation and benefits	43,027	43,951	86,102	90,576
Occupancy and equipment	15,381	13,229	30,423	25,051
Impairment of other real estate owned	419	3,048	1,699	6,595
Gain on sale of other real estate owned	(6,091)	(1,490)	(7,122)	(89)
Other real estate owned expense	1,262	1,161	2,130	3,437
Foreclosure expense	1,994	3,892	2,499	6,611
Deposit insurance expense	1,724	1,946	3,661	3,096
Professional fees	6,959	3,953	12,381	7,602
Telecommunications and data processing	3,484	3,121	6,852	6,351

Other non-interest expense		10,188		10,220		20,231		17,919
Total non-interest expense		78,347		83,031		158,856		167,149
Income before income taxes		86,902		81,707		166,056		163,029
Provision for income taxes		32,894		32,778		63,822		63,828
Net income		54,008		48,929		102,234		99,201
Preferred stock dividends				921				1,841
Net income available to common stockholders	$	54,008	$	48,008	$	102,234	$	97,360
Earnings per common share, basic (see Note 2)	$	0.52	$	0.48	$	1.00	$	0.96
Earnings per common share, diluted (see Note 2)	$	0.52	$	0.48	$	0.99	$	0.96
Cash dividends declared per common share	$	0.21	$	0.17	$	0.42	$	0.34

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

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BANKUNITED, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME - UNAUDITED

(In thousands)

	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
Net income	$ 54,008	$ 48,929	$ 102,234	$ 99,201
Other comprehensive income (loss), net of tax:				
Unrealized gains on investment securities available for sale:				
Net unrealized holding gain (loss) arising during the period	(40,858)	10,243	(34,393)	34,858
Reclassification adjustment for net securities gains realized in income	(2,172)	(540)	(3,208)	(550)
Net change in unrealized gains on securities available for sale	(43,030)	9,703	(37,601)	34,308
Unrealized losses on derivative instruments:				
Net unrealized holding gain (loss) arising during the period	11,567	(4,567)	9,949	(5,198)
Reclassification adjustment for net losses realized in income	3,163	2,736	5,740	5,457
Net change in unrealized losses on derivative instruments	14,730	(1,831)	15,689	259
Other comprehensive income (loss)	(28,300)	7,872	(21,912)	34,567
Comprehensive income	$ 25,708	$ 56,801	$ 80,322	$ 133,768

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

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BANKUNITED, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS - UNAUDITED

(In thousands)

	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
Cash flows from operating activities:		
Net income	$ 102,234	$ 99,201
Adjustments to reconcile net income to net cash used in operating activities:		
Amortization and accretion, net	(203,328)	(238,656)
Provision for loan losses	16,848	11,492
Income from resolution of covered assets, net	(39,770)	(22,085)
Net loss on indemnification asset	29,370	12,403
(Gain) loss on sale of loans, net	4,701	(509)
Increase in cash surrender value of bank owned life insurance	(1,569)	(1,765)
Gain on investment securities available for sale, net	(5,222)	(896)
Gain on sale of other real estate owned	(7,122)	(89)
Equity based compensation	6,663	17,015
Depreciation and amortization	10,193	6,893
Impairment of other real estate owned	1,699	6,595
Deferred income taxes	12,158	(78,384)
Proceeds from sale of loans held for sale	17,927	22,652
Loans originated for sale, net of repayments	(16,956)	(21,224)
Realized tax benefits from dividend equivalents and equity based compensation	(334)	(511)
Gain on acquisition		(5,288)
Other:		
(Increase) decrease in other assets	6,129	(15,313)
Increase in other liabilities	20,443	38,103
Net cash used in operating activities	(45,936)	(170,366)
Cash flows from investing activities:		
Net cash paid in business combination		(1,626)
Purchase of investment securities available for sale	(634,827)	(815,844)
Proceeds from repayments of investment securities available for sale	360,834	296,321
Proceeds from sale of investment securities available for sale	241,830	139,254
Maturities and calls of investment securities available for sale		16,305
Purchase of non-marketable equity securities	(19,212)	(33,208)
Proceeds from redemption of non-marketable equity securities	9,881	28,173
Purchases of loans	(575,162)	(341,664)
Loan originations, repayments and resolutions, net	(523,352)	(140,272)
Proceeds from sale of loans, net	53,182	
Decrease in FDIC indemnification asset for claims filed	73,636	336,303
Bank owned life insurance proceeds	2,782	
Purchase of premises and equipment, net	(12,084)	(15,395)
Acquisition of equipment under operating lease	(47,866)	
Proceeds from sale of other real estate owned	73,045	110,860
Net cash used in investing activities	(997,313)	(420,793)

(Continued)

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

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BANKUNITED, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS - UNAUDITED

(In thousands)

	Six Months Ended June 30, 2013		Six Months Ended June 30, 2012	
Cash flows from financing activities:				
Net increase in deposits		492,879		426,741
Additions to Federal Home Loan Bank advances		1,890,000		1,015,000
Repayments of Federal Home Loan Bank advances		(1,610,000)		(1,015,000)
Increase (decrease) in short-term borrowings		(6,531)		42,375
Increase in advances from borrowers for taxes and insurance		14,330		13,572
Dividends paid		(21,703)		(32,401)
Realized tax benefits from dividend equivalents and equity based compensation		334		511
Exercise of stock options		2,139		763
Net cash provided by financing activities		761,448		451,561
Net decrease in cash and cash equivalents		(281,801)		(139,598)
Cash and cash equivalents, beginning of period		495,353		303,742
Cash and cash equivalents, end of period	$	213,552	$	164,144
Supplemental disclosure of cash flow information:				
Interest paid	$	43,579	$	74,897
Income taxes paid	$	56,680	$	112,839
Supplemental schedule of non-cash investing and financing activities:				
Transfers from loans to other real estate owned	$	41,641	$	87,353
Dividends declared, not paid	$	21,726	$	17,412
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.

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BANKUNITED, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY - UNAUDITED

(In thousands, except share data)

	Common Shares Outstanding	Common Stock	Preferred Shares Outstanding	Preferred Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders Equity
Balance at December 31, 2012	95,006,729	$ 950	5,415,794	$ 54	$ 1,308,315	$ 413,385	$ 83,976	$ 1,806,680
Comprehensive income						102,234	(21,912)	80,322
Conversion of preferred shares to common shares	5,415,794	54	(5,415,794)	(54)				
Dividends						(43,429)		(43,429)
Equity based compensation	28,763				6,663			6,663
Forfeiture of unvested shares	(24,610)							
Exercise of stock options	123,721	2			2,137			2,139
Tax benefits from dividend equivalents and equity based compensation					334			334
Balance at June 30, 2013	100,550,397	$ 1,006		$	$ 1,317,449	$ 472,190	$ 62,064	$ 1,852,709
Balance at December 31, 2011	97,700,829	$ 977		$	$ 1,240,068	$ 276,216	$ 18,019	$ 1,535,280
Comprehensive income						99,201	34,567	133,768
Exchange of common shares for preferred shares	(5,415,794)	(54)	5,415,794	54				
Equity consideration issued in acquisition	1,676,060	17			39,844			39,861
Dividends						(34,947)		(34,947)
Equity based compensation	41,760				17,015			17,015
Forfeiture of unvested shares	(34,015)							
Exercise of stock options	55,681				763			763
Tax benefits from dividend equivalents and equity based compensation					511			511
Balance at June 30, 2012	94,024,521	$ 940	5,415,794	$ 54	$ 1,298,201	$ 340,470	$ 52,586	$ 1,692,251

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

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BANKUNITED, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED

June 30, 2013

Note 1 Basis of Presentation and Summary of Significant Accounting Policies

The consolidated financial statements include the accounts of BankUnited, Inc. (BankUnited, Inc. or BKU), a national bank holding company and its 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 98 branches located in 15 Florida counties and 4 branches located in the New York metropolitan area as of June 30, 2013. BUIS was a Florida insurance agency providing wealth management and financial planning services. The operations of BUIS were discontinued in May 2013 and were not significant to the consolidated results of operations or financial position of the Company for any period presented.

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 six months ended June 30, 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.

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BANKUNITED, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED

June 30, 2013

Note 2 Earnings Per Common Share

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

	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
Basic earnings per common share:				
Numerator:				
Net income	$ 54,008	$ 48,929	$ 102,234	$ 99,201
Preferred stock dividends		(921)		(1,841)
Net income available to common stockholders	54,008	48,008	102,234	97,360
Distributed and undistributed earnings allocated to participating securities	(2,124)	(3,687)	(5,258)	(6,968)
Income allocated to common stockholders for basic earnings per common share	$ 51,884	$ 44,321	$ 96,976	$ 90,392
Denominator:				
Weighted average common shares outstanding	100,484,614	93,994,226	98,315,096	95,190,558
Less average unvested stock awards	(1,104,635)	(1,168,872)	(1,135,499)	(1,405,036)
Weighted average shares for basic earnings per common share	99,379,979	92,825,354	97,179,597	93,785,522
Basic earnings per common share	$ 0.52	$ 0.48	$ 1.00	$ 0.96
Diluted earnings per common share:				
Numerator:				
Income allocated to common stockholders for basic earnings per common share	$ 51,884	$ 44,321	$ 96,976	$ 90,392
Adjustment for earnings reallocated from participating securities	2	2,583	1,225	10
Income used in calculating diluted earnings per common share	$ 51,886	$ 46,904	$ 98,201	$ 90,402
Denominator:				
Average shares for basic earnings per common share	99,379,979	92,825,354	97,179,597	93,785,522
Dilutive effect of stock options and preferred shares	189,403	5,626,620	2,342,584	189,209
Weighted average shares for diluted earnings per common share	99,569,382	98,451,974	99,522,181	93,974,731
Diluted earnings per common share	$ 0.52	$ 0.48	$ 0.99	$ 0.96

The following potentially dilutive securities were outstanding at June 30, 2013 and 2012 but excluded from the calculation of diluted earnings per common share for the periods indicated because their inclusion would have been anti-dilutive:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Unvested shares	1,152,651	654,165	1,152,651	654,165
Stock options and warrants	6,733,410	6,979,788	6,733,410	6,979,788
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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BANKUNITED, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED

June 30, 2013

	June 30, 2013							
	Covered Securities				Non-Covered Securities			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government agency and sponsored enterprise residential mortgage-backed securities	$	$	$	$	$ 1,622,608	$ 42,163	$ (7,128)	$ 1,657,643
U.S. Government agency and sponsored enterprise commercial mortgage-backed securities					27,448	131	(206)	27,373
Resecuritized real estate mortgage investment conduits (Re-Remics)					482,344	6,092	(719)	487,717
Private label residential mortgage-backed securities and CMOs	131,644	55,885	(62)	187,467	171,011	1,310	(2,325)	169,996
Private label commercial mortgage-backed securities					568,326	7,842	(12,757)	563,411
Collateralized loan obligations					373,743	1,080	(175)	374,648
Non-mortgage asset-backed securities					159,525	5,969	(1)	165,493
Mutual funds and preferred stocks	15,419	4,131	(111)	19,439	125,157	5,279	(762)	129,674
State and municipal obligations					23,836	163	(48)	23,951
Small Business Administration securities					317,995	13,935		331,930
Other debt securities	3,511	4,030		7,541				
	$ 150,574	$ 64,046	$ (173)	$ 214,447	$ 3,871,993	$ 83,964	$ (24,121)	$ 3,931,836

	December 31, 2012							
	Covered Securities				Non-Covered Securities			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury and Government agency securities	$	$	$	$	$ 34,998	$ 157	$ (1)	$ 35,154
U.S. Government agency and sponsored enterprise					1,520,047	64,476		1,584,523

residential mortgage-backed securities								
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
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 June 30, 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 Cost	Fair Value
Due in one year or less	$ 520,481	$ 541,516
Due after one year through five years	1,972,658	2,029,229
Due after five years through ten years	1,140,425	1,162,982
Due after ten years	248,427	263,443
Mutual funds and preferred stocks with no stated maturity	140,576	149,113
	$ 4,022,567	$ 4,146,283

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BANKUNITED, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED

June 30, 2013

Based on the Company s proprietary assumptions, the estimated weighted average life of the investment portfolio as of June 30, 2013 was 4.3 years. The effective duration of the investment portfolio as of June 30, 2013 was 1.8 years. The model results are based on assumptions that may differ from actual results.

The carrying value of securities pledged as collateral for Federal Home Loan Bank (FHLB) advances, public deposits, interest rate swaps, securities sold under agreements to repurchase and to secure borrowing capacity at the Federal Reserve Bank totaled $0.8 billion and $0.9 billion at June 30, 2013 and December 31, 2012, respectively.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Proceeds from sale of investment securities available for sale	$ 122,515	$ 133,406	$ 241,830	$ 139,254
Gross realized gains	$ 4,501	$ 1,176	$ 6,190	$ 1,194
Gross realized losses	(2)	(296)	(5)	(298)
Net realized gain	4,499	880	6,185	896
Other-than-temporary impairment (OTTI)	(963)		(963)	
Gain on investment securities available for sale, net	$ 3,536	$ 880	$ 5,222	$ 896

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

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

	June 30, 2013					
	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government agency and sponsored enterprise residential mortgage-backed securities	$ 364,614	$ (7,128)	$	$	$ 364,614	$ (7,128)
U.S. Government agency and sponsored enterprise commercial mortgage-backed securities	17,694	(206)			17,694	(206)
Re-Remics	146,501	(719)			146,501	(719)
Private label residential mortgage-backed securities and CMOs	81,510	(2,325)	1,395	(62)	82,905	(2,387)
Private label commercial mortgage-backed securities	277,429	(12,757)			277,429	(12,757)
Collateralized loan obligations	103,850	(175)			103,850	(175)
Non-mortgage asset-backed securities	2,001	(1)			2,001	(1)
Mutual funds and preferred stocks	48,874	(873)			48,874	(873)
State and municipal obligations	5,858	(48)			5,858	(48)
	$ 1,048,331	$ (24,232)	$ 1,395	$ (62)	$ 1,049,726	$ (24,294)

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	December 31, 2012					
	Less than 12 Months		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 OTTI on an individual security basis. As discussed above, one security was determined to be other than temporarily impaired during the three months ended June 30, 2013. No securities were determined to be other than temporarily impaired during the six months ended June 30, 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 securities before recovery of the amortized cost basis, which may be at maturity. At June 30, 2013, 75 securities were in unrealized loss positions. Generally, increases in unrealized losses on investment securities available for sale arising during the three months ended June 30, 2013 were attributable to an increase in medium and long-term market interest rates during the period and in certain cases, corresponding increases in liquidity premiums in response to rate volatility. The amount of impairment related to 18 of these securities was considered insignificant, totaling approximately $41 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:

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

At June 30, 2013, 12 U.S. Government agency and sponsored enterprise residential and commercial mortgage-backed securities were in unrealized loss positions. All of these securities had been in unrealized loss positions for three months or less. The amount of impairment of each of the individual securities was 3% or less of amortized cost. The timely payment of principal and interest on these securities is explicitly or implicitly guaranteed by the U.S. Government. Given the limited severity and duration of impairment and the expectation of timely payment of principal and interest, the impairments were considered to be temporary.

Private label residential mortgage-backed securities and CMOs and Re-Remics:

At June 30, 2013, 22 private label residential mortgage-backed securities and Re-Remics were in unrealized loss positions. These securities were assessed for OTTI using third-party developed credit and prepayment behavioral models and CUSIP level constant default rates, voluntary prepayment rates and loss severity and delinquency assumptions. The results of these assessments were not indicative of credit losses related to any of these securities as of June 30, 2013. Eighteen of the securities had been in unrealized loss positions for two months or less and three for eight months or less. These securities evidenced unrealized losses ranging from less than 1% to 5% of amortized cost. The remaining security had been in an unrealized loss position for 24 months and evidenced an unrealized loss of 6% of amortized cost. The market for this security is thin and the market price is adversely affected by lack of liquidity. This bond is considered an odd lot which can be detrimental to potential bids for the security. Given the 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 June 30, 2013, nine private label commercial mortgage-backed securities were in unrealized loss positions. Eight of these securities had been in unrealized loss positions for two months and one for six months; the amount of impairment ranged from 1% to 7% of amortized cost. These securities were assessed for OTTI using

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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. Securities in this class generally have longer durations than the portfolio as a whole, so were more significantly impacted by the increase in rates. Given the limited severity and duration of impairment and the expectation of timely recovery of outstanding principal, the impairments were considered to be temporary.

Collateralized loan obligations:

At June 30, 2013, two collateralized loan obligations were in unrealized loss positions. These securities had been in unrealized loss positions for two months or less and the amount of impairment was less than 1% 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 impairments were considered to be temporary.

Mutual funds:

At June 30, 2013, three investments in one mutual fund were in unrealized loss positions. These investments had been in unrealized loss positions for two months or less and the amount of impairment was less than 4% of amortized cost. The majority of the underlying holdings of the mutual fund are either explicitly or implicitly guaranteed by the U.S. Government. Given the limited severity and duration of impairment, the impairments were considered to be temporary.

Preferred stocks:

At June 30, 2013, one investment in U.S. Government sponsored enterprise preferred stock and six investments in financial institution preferred stock were in unrealized loss positions. These securities had been in unrealized loss positions for three months or less. Given the limited duration and results of the Company s analysis of the financial condition of the issuer of the financial institution preferred stocks, the impairments were considered to be temporary.

State and municipal obligations:

At June 30, 2013, two municipal securities were in unrealized loss positions. These securities had been in unrealized loss positions for 11 months or less and the amount of impairment was less than 4% of amortized cost. Given the limited duration and severity of impairments, the results of the Company s analysis of the issuers and the ratings of the securities, the impairments were considered to be temporary.

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):

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	June 30, 2013					
	Covered Loans		Non-Covered Loans			Percent of
	ACI	Non-ACI	ACI	New Loans	Total	Total
Residential:						
1-4 single family residential	$ 1,168,221	$ 82,632	$	$ 1,335,001	$ 2,585,854	38.0%
Home equity loans and lines of credit	46,121	143,185		1,474	190,780	2.8%
	1,214,342	225,817		1,336,475	2,776,634	40.8%
Commercial:						
Multi-family	37,324	673	8,029	425,151	471,177	6.9%
Commercial real estate	152,311	383	5,223	1,219,487	1,377,404	20.3%
Construction and land	11,155	808		66,875	78,838	1.2%
Commercial and industrial	11,301	7,697		1,713,783	1,732,781	25.5%
Lease financing				265,185	265,185	3.9%
	212,091	9,561	13,252	3,690,481	3,925,385	57.8%
Consumer	1,848			94,094	95,942	1.4%
Total loans	1,428,281	235,378	13,252	5,121,050	6,797,961	100.0%
Premiums, discounts and deferred fees and costs, net		(16,713)		26,077	9,364	
Loans net of premiums, discounts, deferred fees and costs	1,428,281	218,665	13,252	5,147,127	6,807,325	
Allowance for loan and lease losses	(4,304)	(13,908)		(40,219)	(58,431)	
Loans, net	$ 1,423,977	$ 204,757	$ 13,252	$ 5,106,908	$ 6,748,894	

	December 31, 2012					
	Covered Loans		Non-Covered Loans			Percent of
	ACI	Non-ACI	ACI	New Loans	Total	Total
Residential:						
1-4 single family residential	$ 1,300,109	$ 93,438	$	$ 920,713	$ 2,314,260	41.5%
Home equity loans and lines of credit	52,499	157,691		1,954	212,144	3.8%
	1,352,608	251,129		922,667	2,526,404	45.3%
Commercial:						
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 deferred fees and costs, net		(18,235)		11,863	(6,372)	

Loans net of premiums, discounts, deferred fees and costs		1,617,399		246,976		4,087		3,703,277		5,571,739
Allowance for loan and 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 June 30, 2013 and December 31, 2012, the unpaid principal balance (UPB) of ACI loans was $3.7 billion and $4.2 billion, respectively.

During the three and six months ended June 30, 2013 and 2012, the Company purchased 1-4 single family residential loans totaling $347.8 million, $575.2 million, $175.8 million, and $341.7 million, respectively.

At June 30, 2013, the Company had pledged real estate loans with UPB of approximately $5.2 billion and carrying amounts of approximately $3.3 billion as security for FHLB advances.

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

	Three Months Ended June 30, 2013	Six Months Ended June 30, 2013
Unpaid principal balance of loans sold	$ 69,980	$ 102,238
Cash proceeds, net of transaction costs	$ 36,451	$ 53,182
Carrying value of loans sold	25,238	32,502
Net pre-tax impact on earnings, excluding gain on indemnification asset	$ 11,213	$ 20,680
Loss on sale of covered loans	$ (4,311)	$ (5,082)
Proceeds recorded in interest income	15,524	25,762
	$ 11,213	$ 20,680
Gain on indemnification asset	$ 4,952	$ 6,168

The Company did not sell any covered loans during the three and six months ended June 30, 2012.

For the three and six months ended June 30, 2013, loans with UPB of $29.9 million and $49.9 million, respectively, 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, representing the difference between the carrying amount and consideration received, was recorded in Gain (loss) on sale of loans, net in the 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 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):

	Three Months Ended							
	June 30, 2013				June 30, 2012			
	Residential	Commercial	Consumer	Total	Residential	Commercial	Consumer	Total
Beginning balance	$ 19,612	$ 40,874	$ 537	$ 61,023	$ 14,706	$ 41,725	$ 43	$ 56,474
Provision for (recovery of) loan losses:								
ACI loans		(195)		(195)		(1,771)		(1,771)
Non-ACI loans	(1,108)	(1,648)		(2,756)	852	(565)		287
New loans	341	7,177	314	7,832	2,170	2,049	(10)	4,209
Total provision	(767)	5,334	314	4,881	3,022	(287)	(10)	2,725
Charge-offs:								
ACI loans		(291)		(291)		(1,735)		(1,735)
Non-ACI loans	(734)	(67)		(801)	(1,397)	(37)		(1,434)
New loans		(7,976)	(61)	(8,037)		(533)		(533)
Total charge-offs	(734)	(8,334)	(61)	(9,129)	(1,397)	(2,305)		(3,702)
Recoveries:								
Non-ACI loans	4	1,542		1,546		110		110
New loans		98	12	110		27	1	28
Total recoveries	4	1,640	12	1,656		137	1	138
Ending balance	$ 18,115	$ 39,514	$ 802	$ 58,431	$ 16,331	$ 39,270	$ 34	$ 55,635

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	Six Months Ended							
	June 30, 2013				June 30, 2012			
	Residential	Commercial	Consumer	Total	Residential	Commercial	Consumer	Total
Beginning balance	$ 19,164	$ 39,543	$ 414	$ 59,121	$ 10,175	$ 38,176	$ 51	$ 48,402
Provision for (recovery of) loan losses:								
ACI loans		(1,598)		(1,598)		(2,782)		(2,782)
Non-ACI loans	6,056	(2,609)		3,447	4,642	(1,744)		2,898
New loans	(5,386)	19,948	437	14,999	3,412	7,983	(19)	11,376
Total provision	670	15,741	437	16,848	8,054	3,457	(19)	11,492
Charge-offs:								
ACI loans		(2,117)		(2,117)		(2,465)		(2,465)
Non-ACI loans	(1,734)	(172)		(1,906)	(1,900)	(140)		(2,040)
New loans		(16,170)	(81)	(16,251)		(1,116)		(1,116)
Total charge-offs	(1,734)	(18,459)	(81)	(20,274)	(1,900)	(3,721)		(5,621)
Recoveries:								
Non-ACI loans	15	2,478		2,493	2	1,276		1,278
New loans		211	32	243		82	2	84
Total recoveries	15	2,689	32	2,736	2	1,358	2	1,362
Ending balance	$ 18,115	$ 39,514	$ 802	$ 58,431	$ 16,331	$ 39,270	$ 34	$ 55,635

The impact of provisions for (recoveries of) losses on covered loans is significantly mitigated by increases (decreases) in the FDIC indemnification asset, recorded in the consolidated statement of income line item Net loss on indemnification assetIncreases (decreases) in the FDIC indemnification asset of $(2.3) million and $1.4 million were reflected in non-interest income for the three and six months ended June 30, 2013, respectively, and $(0.9) million and $0.7 million for the three and six months ended June 30, 2012, respectively, related to the provision for (recovery of) loan losses on covered loans, including both ACI and non-ACI loans.

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

	June 30, 2013				December 31, 2012			
	Residential	Commercial	Consumer	Total	Residential	Commercial	Consumer	Total
Allowance for loan and lease losses:								
Ending balance	$ 18,115	$ 39,514	$ 802	$ 58,431	$ 19,164	$ 39,543	$ 414	$ 59,121
Ending balance: non-ACI and new loans individually evaluated for impairment	$ 921	$ 2,624	$	$ 3,545	$ 984	$ 1,533	$	$ 2,517
Ending balance: non-ACI and new loans collectively evaluated for impairment	$ 17,194	$ 32,586	$ 802	$ 50,582	$ 18,180	$ 29,991	$ 414	$ 48,585

Ending balance: ACI	$		$	4,304	$		$	4,304	$		$	8,019	$		$	8,019
Ending balance: non-ACI	$	13,408	$	500	$		$	13,908	$	9,071	$	803	$		$	9,874
Ending balance: new loans	$	4,707	$	34,710	$	802	$	40,219	$	10,093	$	30,721	$	414	$	41,228
Loans:																
Ending balance (1)	$	2,776,634	$	3,925,385	$	95,942	$	6,797,961	$	2,526,404	$	3,015,942	$	35,765	$	5,578,111
Ending balance: non-ACI and new loans individually evaluated for impairment (1)	$	6,460	$	21,666	$		$	28,126	$	5,302	$	24,698	$		$	30,000
Ending balance: non-ACI and new loans collectively evaluated for impairment (1)	$	1,555,832	$	3,678,376	$	94,094	$	5,328,302	$	1,168,494	$	2,724,605	$	33,526	$	3,926,625
Ending balance: ACI loans	$	1,214,342	$	225,343	$	1,848	$	1,441,533	$	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 $750,000 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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[redacted]

New loans:						
With no specific allowance recorded:						
Multi-family	$	$	$	$ 3,649	$ 3,649	$
Commercial real estate	1,513	1,513		1,564	1,564	
Commercial and industrial	2,103	2,102		9,858	9,860	
With a specific allowance recorded:						
Commercial and industrial	14,227	14,241	1,906	4,377	4,381	649
Lease financing	1,511	1,511	718	1,677	1,677	884
Total:						
Residential	$	$	$	$	$	$
Commercial	19,354	19,367	2,624	21,125	21,131	1,533
	$ 19,354	$ 19,367	$ 2,624	$ 21,125	$ 21,131	$ 1,533
Non-ACI loans:						
With no specific allowance recorded:						
1-4 single family residential	$ 351	$ 422	$	$ 375	$ 446	$
Home equity loans and lines of credit	1,545	1,574		176	179	
Commercial real estate				59	59	
Commercial and industrial	2,296	2,299		3,506	3,508	
With a specific allowance recorded:						
1-4 single family residential	3,553	4,265	869	3,577	4,252	970
Home equity loans and lines of credit	196	199	52	417	425	14
Total:						
Residential	$ 5,645	$ 6,460	$ 921	$ 4,545	$ 5,302	$ 984
Commercial	2,296	2,299		3,565	3,567	
	$ 7,941	$ 8,759	$ 921	$ 8,110	$ 8,869	$ 984

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

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

	Three Months Ended June 30,				**Six Months Ended June 30,**			
	2013		**2012**		**2013**		**2012**	
	New Loans	**Non-ACI Loans**	**New Loans**	**Non-ACI Loans**	**New Loans**	**Non-ACI Loans**	**New Loans**	**Non-ACI Loans**
Residential:								
1-4 single family residential	$	$ 3,930	$	$ 2,398	$	$ 3,937	$	$ 2,106
		1,616				1,275		

Home equity loans and lines of credit								
		5,546		2,398		5,212		2,106
Commercial:								
Multi-family			7,878		1,216		5,252	
Commercial real estate	1,524		2,413	128	1,537	20	1,608	183
Construction and land			310				317	1,790
Commercial and industrial	18,361	2,312	9,323	4,852	16,985	2,710	6,459	3,235
Lease financing	1,511				1,566			
	21,396	2,312	19,924	4,980	21,304	2,730	13,636	5,208
	$ 21,396	$ 7,858	$ 19,924	$ 7,378	$ 21,304	$ 7,942	$ 13,636	$ 7,314

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

	June 30, 2013		December 31, 2012	
	New Loans	**Non-ACI Loans**	**New Loans**	**Non-ACI Loans**
Residential:				
1-4 single family residential	$ 85	$ 1,953	$ 155	$ 2,678
Home equity loans and lines of credit		8,150		9,767
	85	10,103	155	12,445
Commercial:				
Commercial real estate	2,050	55	1,619	59
Construction and land	261		278	
Commercial and industrial	16,824	3,167	11,907	4,530
Lease financing	1,542		1,719	
	20,677	3,222	15,523	4,589
	$ 20,762	$ 13,325	$ 15,678	$ 17,034

New and non-ACI loans contractually delinquent by 90 days or more and still accruing totaled $0.6 million and $0.2 million at June 30, 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.

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 June 30, 2013 and 2012, that experienced payment defaults during the periods indicated (dollars in thousands):

	Three Months Ended June 30,							
		2013				2012		
[redacted]								
New loans:								
Commercial and industrial		$		$	1	$ 42	1	$ 245
		$		$	1	$ 42	1	$ 245
Non-ACI loans:								
1-4 single family residential		$		$	2	$ 1,832		$
Home equity loans and lines of credit	2		299					

Commercial and industrial						1		10			
	2	$	299		$	3	$	1,842		$	

	Six Months Ended June 30,											
	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	
New loans:												
Multi-family		$			$		1	$	3,676		$	
Commercial and industrial	1		513				3		1,011	1		245
	1	$	513		$		4	$	4,687	1	$	245
Non-ACI loans:												
1-4 single family residential	2	$	333	1	$	166	2	$	1,832		$	
Home equity loans and lines of credit	3		1,148									
Commercial and industrial							1		10			
	5	$	1,481	1	$	166	3	$	1,842		$	

Modifications during the three and six month periods ended June 30, 2013 and 2012 included restructuring of the amount and timing of required periodic payments, extensions of maturity and residential modifications under

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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 June 30, 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.

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):

Residential credit exposure, based on delinquency status:

	June 30, 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
New loans:				
Current	$ 1,347,417	$ 1,474	$ 927,859	$ 1,811
Past due less than 90 days	11,177		7,619	143
Past due 90 days or more	381		193	
	$ 1,358,975	$ 1,474	$ 935,671	$ 1,954
Non-ACI loans:				
Current	$ 65,803	$ 128,708	$ 71,096	$ 140,975
Past due less than 90 days	900	3,747	5,057	4,005

Past due 90 days or more	2,127	8,150	2,431	9,767
	$ 68,830	$ 140,605	$ 78,584	$ 154,747

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

	June 30, 2013 FICO				December 31, 2012 FICO			
LTV	740 or less	741 - 760	761 or greater	Total	740 or less	741 - 760	761 or greater	Total
60% or less	$ 65,822	$ 59,978	$ 338,016	$ 463,816	$ 62,433	$ 35,761	$ 217,249	$ 315,443
60% - 70%	47,004	58,117	254,862	359,983	29,138	41,863	159,068	230,069
70% - 80%	63,215	86,562	341,943	491,720	55,319	54,367	256,605	366,291
80% or more	31,007	2,928	9,521	43,456	18,327	1,200	4,341	23,868
	$ 207,048	$ 207,585	$ 944,342	$ 1,358,975	$ 165,217	$ 133,191	$ 637,263	$ 935,671

Consumer credit exposure, based on delinquency status:

	June 30, 2013	December 31, 2012
New loans:		
Current	$ 96,872	$ 33,488
Past due less than 90 days	167	54
	$ 97,039	$ 33,542

Commercial credit exposure, based on internal risk rating:

	June 30, 2013					
	Multi-Family	Commercial Real Estate	Construction and Land	Commercial and Industrial	Lease Financing	Total
New loans:						
Pass	$ 420,849	$ 1,211,360	$ 66,401	$ 1,679,836	$ 265,815	$ 3,644,261
Special mention	3,086	2,129		3,588		8,803
Substandard	1,117	4,441	261	24,400	917	31,136
Doubtful		51		4,762	626	5,439
	$ 425,052	$ 1,217,981	$ 66,662	$ 1,712,586	$ 267,358	$ 3,689,639
Non-ACI loans:						
Pass	$ 670	$ 326	$ 761	$ 4,215	$	$ 5,972
Substandard		55		2,687		2,742
Doubtful				516		516
	$ 670	$ 381	$ 761	$ 7,418	$	$ 9,230

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	December 31, 2012					
	Multi-Family	Commercial Real Estate	Construction and Land	Commercial and Industrial	Lease Financing	Total
New loans:						
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
Non-ACI loans:						
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):

	June 30, 2013					December 31, 2012				
	Current	30 - 59 Days Past Due	60 - 89 Days Past Due	90 Days or More Past Due or in Foreclosure	Total	Current	30 - 59 Days Past Due	60 - 89 Days Past Due	90 Days or More Past Due or in Foreclosure	Total
New loans:										
1-4 single family residential	$ 1,347,417	$ 10,891	$ 286	$ 381	$ 1,358,975	$ 927,859	$ 7,458	$ 161	$ 193	$ 935,671
Home equity loans and lines of credit	1,474				1,474	1,811	143			1,954
Multi-family	425,052				425,052	306,481				306,481
Commercial real estate	1,216,061	1,920			1,217,981	793,105				793,105
Construction and land	66,662				66,662	72,002				72,002
Commercial and industrial	1,691,754	684	7,141	13,007	1,712,586	1,322,937	7,147	192	2,505	1,332,781
Lease financing	267,358				267,358	227,741				227,741
Consumer	96,872	96	71		97,039	33,488	9	45		33,542
	$ 5,112,650	$ 13,591	$ 7,498	$ 13,388	$ 5,147,127	$ 3,685,424	$ 14,757	$ 398	$ 2,698	$ 3,703,277
Non-ACI loans:										
1-4 single family residential	$ 65,803	$ 900	$	$ 2,127	$ 68,830	$ 71,096	$ 4,448	$ 609	$ 2,431	$ 78,584
Home equity loans and lines of credit	128,708	2,562	1,185	8,150	140,605	140,975	2,170	1,835	9,767	154,747
Multi-family	670				670	712				712
Commercial real estate	381				381	910				910
Construction and land	761				761	775				775
	4,640			2,778	7,418	7,164	27	12	4,045	11,248

Commercial and industrial	$	200,963	$	3,462	$	1,185	$	13,055	$	218,665	$	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 six months ended June 30, 2013 and the year ended December 31, 2012 were as follows (in thousands):

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Balance, December 31, 2011	$	1,523,615
Reclassifications from non-accretable difference		206,934
Accretion		(444,483)
Balance, December 31, 2012		1,286,066
Reclassifications from non-accretable difference		163,039
Accretion		(211,219)
Balance, June 30, 2013	$	1,237,886

Accretable yield at June 30, 2013 included expected cash flows of $73.9 million from a pool of 1-4 single family residential loans whose carrying value had been reduced to zero. The UPB of loans remaining in this pool was $134.9 million at June 30, 2013.

Credit quality information ACI loans

ACI loans or loan pools are considered to be impaired when there has been further deterioration in the cash flows expected at acquisition plus any additional cash flows expected to be collected arising from changes in estimates after acquisition, other than due to decreases in interest rate indices and changes in prepayment assumptions. Discount continues to be accreted on ACI loans or pools as long as there are expected future cash flows in excess of the current carrying amount; therefore, these loans are not classified as non-accrual even though they may be contractually delinquent. ACI 1-4 single family residential and home equity loans accounted for in pools are evaluated for impairment on a pool basis and the amount of any impairment is measured based on the expected aggregate cash flows of the pools. ACI commercial and commercial real estate loans are evaluated individually for impairment.

The tables below set forth at the dates indicated, the carrying amount of ACI loans or pools for which the Company has determined it is probable that it will be unable to collect all the cash flows expected at acquisition plus additional cash flows expected to be collected arising from changes in estimates after acquisition, if any, as well as ACI loans not accounted for in pools that have been modified in TDRs, and the related allowance amounts (in thousands):

	June 30, 2013			December 31, 2012		
	Recorded Investment in Impaired Loans or Pools	**Unpaid Principal Balance**	**Related Specific Allowance**	**Recorded Investment in Impaired Loans or Pools**	**Unpaid Principal Balance**	**Related Specific Allowance**
With no specific allowance recorded:						
Commercial real estate	$ 362	$ 429	$	$ 104	$ 171	$
Construction and land	546	628		512	669	
Commercial and industrial				188	188	

With a specific allowance recorded:						
Multi-family	3,067	3,212	280	6,626	7,043	504
Commercial real estate	19,668	21,580	2,755	23,696	27,357	5,400
Construction and land	2,296	2,535	340	4,874	6,567	350
Commercial and industrial	6,082	6,435	929	7,580	7,959	1,765
Total:						
Residential	$	$	$	$	$	$
Commercial	32,021	34,819	4,304	43,580	49,954	8,019
	$ 32,021	$ 34,819	$ 4,304	$ 43,580	$ 49,954	$ 8,019

The following table presents the average recorded investment in impaired ACI loans or pools for the periods indicated (in thousands):

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	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
Commercial:				
Multi-family	$ 5,401	$ 16,584	$ 5,809	$ 14,771
Commercial real estate	27,856	47,764	26,504	48,468
Construction and land	4,378	17,355	4,714	17,104
Commercial and industrial	6,225	13,826	6,739	14,855
	$ 43,860	$ 95,529	$ 43,766	$ 95,198

The following table summarizes ACI loans that were modified in TDRs during the periods indicated, as well as ACI loans modified during the twelve months preceding June 30, 2013 and 2012, that experienced payment defaults during the periods indicated (dollars in thousands):

	Three Months Ended June 30,							
	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
Commercial real estate		$	1	$ 135	2	$ 433	1	$ 327
Commercial and industrial					2	381		
		$	1	$ 135	4	$ 814	1	$ 327

	Six Months Ended June 30,							
	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
Commercial real estate	3	$ 1,271	1	$ 135	2	$ 433	1	$ 327
Commercial and industrial	1	168			3	403		
	4	$ 1,439	1	$ 135	5	$ 836	1	$ 327

Modifications during the three and six month periods ended June 30, 2013 and 2012 included restructurings of the amount and timing of payments, extensions of maturity and modifications of interest rates. Modified ACI loans accounted for in pools are not considered TDRs, are not separated from the pools and are not classified as impaired loans.

The following tables summarize key indicators of credit quality for the Company s ACI loans at the dates indicated (in thousands):

Residential credit exposure, based on delinquency status:

	June 30, 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
Current	$ 1,026,676	$ 39,233	$ 1,093,363	$ 43,226
Past due less than 90 days	47,366	1,446	63,435	1,818
Past due 90 days or more	94,179	5,442	143,311	7,455
	$ 1,168,221	$ 46,121	$ 1,300,109	$ 52,499

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Consumer credit exposure, based on delinquency status:

	June 30, 2013	December 31, 2012
Current	$ 1,810	$ 2,190
Past due less than 90 days	11	17
Past due 90 days or more	27	32
	$ 1,848	$ 2,239

Commercial credit exposure, based on internal risk rating:

	June 30, 2013				
	Multi-Family	Commercial Real Estate	Construction and Land	Commercial and Industrial	Total
Pass	$ 32,312	$ 107,342	$ 7,229	$ 5,419	$ 152,302
Special mention	441	4,338			4,779
Substandard	12,600	45,772	3,926	5,793	68,091
Doubtful		82		89	171
	$ 45,353	$ 157,534	$ 11,155	$ 11,301	$ 225,343

	December 31, 2012				
	Multi-Family	Commercial Real Estate	Construction and Land	Commercial and Industrial	Total
Pass	$ 36,068	$ 118,397	$ 6,937	$ 6,183	$ 167,585
Special mention	381	4,615			4,996
Substandard	19,699	54,794	11,127	8,198	93,818
Doubtful		13		227	240
	$ 56,148	$ 177,819	$ 18,064	$ 14,608	$ 266,639

The following table presents an aging of loans in the ACI portfolio at the dates indicated (in thousands):

	June 30, 2013					December 31, 2012				
	Current	30 - 59 Days Past Due	60 - 89 Days Past Due	90 Days or More Past Due or in Foreclosure	Total	Current	30 - 59 Days Past Due	60 - 89 Days Past Due	90 Days or More Past Due or in Foreclosure	Total

1-4 single family residential	$ 1,026,676	$ 37,559	$ 9,807	$ 94,179	$ 1,168,221	$ 1,093,363	$ 47,529	$ 15,906	$ 143,311	$ 1,300,109
Home equity loans and lines of credit	39,233	1,049	397	5,442	46,121	43,226	1,254	564	7,455	52,499
Multi-family	42,802			2,551	45,353	47,474	45		8,629	56,148
Commercial real estate	153,269	488	11	3,766	157,534	171,908	2,075	447	3,389	177,819
Construction and land	7,862			3,293	11,155	9,257			8,807	18,064
Commercial and industrial	7,779	539	22	2,961	11,301	7,762	1,951	17	4,878	14,608
Consumer	1,810	5	6	27	1,848	2,190	10	7	32	2,239
	$ 1,279,431	$ 39,640	$ 10,243	$ 112,219	$ 1,441,533	$ 1,375,180	$ 52,864	$ 16,941	$ 176,501	$ 1,621,486

1-4 single family residential and home equity ACI loans that are contractually delinquent by more than 90 days and accounted for in pools that are on accrual status because discount continues to be accreted totaled $99.6 million and $150.8 million at June 30, 2013 and December 31, 2012, respectively. The carrying amount of commercial and commercial real estate ACI loans that are contractually delinquent in excess of ninety days but still classified as accruing loans due to discount accretion totaled $12.6 million and $25.7 million at June 30, 2013 and December 31, 2012, respectively.

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Note 5 FDIC Indemnification Asset

The FDIC indemnification asset was originally recognized at an amount equal to the present value of estimated future payments to be received from the FDIC under the terms of the Loss Sharing Agreements.

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

Conversely, increases in future expected cash flows from the covered assets are recognized prospectively as adjustments to the yield on those assets. Those increases in expected cash flows from the assets result in decreases in the estimated amount recoverable from the FDIC under the Loss Sharing Agreements, which are also recognized prospectively, as an adjustment of the amount of accretion or amortization of the FDIC indemnification asset.

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

	Three Months Ended June 30, 2013			Three Months Ended June 30, 2012		
	Transaction Income (Loss)	Net Loss on Indemnification Asset	Net Impact on Pre-tax Earnings	Transaction Income (Loss)	Net Loss on Indemnification Asset	Net Impact on Pre-tax Earnings
Recovery of losses on covered loans	$ 2,951	$ (2,349)	$ 602	$ 1,484	$ (922)	$ 562
Income from resolution of covered assets, net	20,580	(16,714)	3,866	14,803	(12,923)	1,880

Loss on sale of covered loans	(4,311)	4,952	641			
OTTI on covered investment securities available for sale	(963)	770	(193)			
Gain on sale of OREO	6,091	(4,677)	1,414	1,490	(1,130)	360
Impairment of OREO	(419)	335	(84)	(3,048)	2,438	(610)
	$ 23,929	$ (17,683)	$ 6,246	$ 14,729	$ (12,537)	$ 2,192

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	Six Months Ended June 30, 2013			Six Months Ended June 30, 2012		
	Transaction Income (Loss)	Net Loss on Indemnification Asset	Net Impact on Pre-tax Earnings	Transaction Income (Loss)	Net Loss on Indemnification Asset	Net Impact on Pre-tax Earnings
Provision for losses on covered loans	$ (1,849)	$ 1,394	$ (455)	$ (116)	$ 673	$ 557
Income from resolution of covered assets, net	39,770	(33,558)	6,212	22,085	(18,375)	3,710
Loss on sale of covered loans	(5,082)	6,168	1,086			
OTTI on covered investment securities available for sale	(963)	770	(193)			
Gain on sale of OREO	7,122	(5,502)	1,620	89	23	112
Impairment of OREO	(1,699)	1,358	(341)	(6,595)	5,276	(1,319)
	$ 37,299	$ (29,370)	$ 7,929	$ 15,463	$ (12,403)	$ 3,060

Changes in the FDIC indemnification asset for the six months ended June 30, 2013 and for the year ended December 31, 2012, were as follows (in thousands):

Balance, December 31, 2011	$ 2,049,151
Accretion	15,306
Reduction for claims filed	(600,857)
Net loss on indemnification asset	(6,030)
Balance, December 31, 2012	1,457,570
Amortization	(9,430)
Reduction for claims filed	(73,636)
Net loss on indemnification asset	(29,370)
Balance, June 30, 2013	$ 1,345,134

Under the terms of the Loss Sharing Agreements, the Company is also entitled to reimbursement from the FDIC for certain expenses related to covered assets upon final resolution of those assets. For the three months ended June 30, 2013 and 2012, non-interest expense included approximately $2.6 million and $5.1 million, respectively, of expenses subject to reimbursement at the 80% level under the Loss Sharing Agreements. For the same periods in 2013 and 2012, claims of $2.3 million and $3.3 million, respectively, were submitted to the FDIC for reimbursement. For the six months ended June 30, 2013 and 2012, non-interest expense included approximately $4.0 million and $10.0 million, respectively, of expenses subject to reimbursement at the 80% level, and claims of $5.1 million and $9.8 million, respectively, were submitted to the FDIC for reimbursement. As of June 30, 2013, $14.5 million of expenses incurred to date remained to be submitted for reimbursement from the FDIC in future periods.

Note 6 Income Taxes

The Company s effective income tax rate of 37.9% and 38.4%, respectively, for the three and six months ended June 30, 2013 differed from the statutory federal income tax rate primarily due to the impact of state income taxes. For the three and six months ended June 30, 2012 the effective income tax rate of 40.1% and 39.2% differed from the statutory federal income tax rate primarily due to the impact of state income taxes and non-deductible equity based compensation expense. In addition, the effective tax rate for the six months ended June 30, 2012 was impacted by a nontaxable gain on the acquisition of Herald.

Note 7 Derivatives and Hedging Activities

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

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subsequently reclassified into interest expense in the same period in which the related interest on the floating-rate debt obligations affects earnings.

The Company also enters into interest rate derivative contracts with certain of its borrowers to enable those borrowers to manage their exposure to interest rate fluctuations. To mitigate interest rate risk associated with these derivative contracts, the Company enters into offsetting derivative contract positions with financial institution counterparties. These interest rate derivative contracts are not designated as hedging instruments; therefore, changes in the fair value of these derivatives are recognized immediately in earnings. The impact on earnings related to changes in fair value of these derivatives for the six months ended June 30, 2013 and 2012 was not material.

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

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

	June 30, 2013							
	Hedged Item	**Weighted Average Pay Rate**	**Weighted Average Receive Rate**	**Weighted Average Remaining Life in Years**	**Notional Amount**	**Balance Sheet Location**	**Fair value Asset**	**Fair value Liability**
Derivatives designated as cash flow hedges:								
Pay-fixed interest rate swaps	Variability of interest cash flows on certificates of deposit	3.11%	12-Month Libor	2.4	$ 225,000	Other liabilities	$	$ (14,262)
Purchased interest rate forward-starting	Variability of interest cash flows on	1.82%	3-Month Libor	4.6	1,080,000	Other assets / Other liabilities	14,828	(28,885)

swaps	variable rate borrowings							
Derivatives not designated as hedges:								
Pay-fixed interest rate swaps and caps		4.02%	Indexed to 1-month Libor	5.0	204,690	Other assets / Other liabilities	663	(3,653)
Pay-variable interest rate swaps and caps		Indexed to 1-month Libor	4.02%	5.0	204,690	Other assets / Other liabilities	3,653	(663)
					$ 1,714,380		$ 19,144	$ (47,463)

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	December 31, 2012							
	Hedged Item	Weighted Average Pay Rate	Weighted Average Receive Rate	Weighted Average Remaining Life in Years	Notional Amount	Balance Sheet Location	Fair value Asset	Fair value Liability
Derivatives designated as cash flow hedges:								
Pay-fixed interest rate swaps	Variability of interest cash flows on certificates of deposit	3.11%	12-Month Libor	2.8	$ 225,000	Other liabilities	$	$ (14,622)
Purchased interest rate forward-starting swaps	Variability of interest cash flows on variable rate borrowings	3.75%	3-Month Libor	3.8	285,000	Other liabilities		(36,182)
Derivatives not designated as hedges:								
Pay-fixed interest rate swaps and caps		4.18%	Indexed to 1-month Libor	4.8	102,712	Other liabilities		(4,908)
Pay-variable interest rate swaps and caps		Indexed to 1-month Libor	4.18%	4.8	102,712	Other assets	4,908	
					$ 715,424		$ 4,908	$ (55,712)

The following table provides information about gains and losses related to interest rate contract derivative instruments designated as cash flow hedges for the periods indicated (in thousands):

	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
Amount of loss reclassified from AOCI into interest expense during the period (effective portion)	$ (5,149)	$ (4,454)	$ (9,345)	$ (8,883)
Amount of gain (loss) recognized in income during the period (ineffective portion)	$	$	$	$

During the six months ended June 30, 2013 and 2012, no derivative positions designated as cash flow hedges were discontinued and none of the gains and losses reported in AOCI were reclassified into earnings as a result of the discontinuance of cash flow hedges or because of the early extinguishment of debt. As of June 30, 2013, the amount expected to be reclassified from AOCI into income during the next twelve months was $21.1 million.

Some of the Company s ISDA master agreements with financial institution counterparties contain provisions that permit either counterparty to terminate the agreements and require settlement in the event that regulatory capital ratios fall below certain designated thresholds, upon the initiation of other defined regulatory actions or upon suspension or withdrawal of the Bank s credit rating. Currently, there are no circumstances that would trigger these provisions of the agreements. Information on interest rate swaps subject to master netting agreements is as follows for the dates indicated (in thousands):

	June 30, 2013					
				Gross Amounts Not Offset in Balance Sheet		
	Gross Amounts Recognized	Gross Amounts Offset in Balance Sheet	Net Amounts Presented in Balance Sheet	Derivative Instruments	Collateral Pledged	Net Amount
Derivative assets	$ 15,491	$	$ 15,491	$ (13,262)	$	$ 2,229
Derivative liabilities	(46,800)		(46,800)	13,262	33,538	
	$ (31,309)	$	$ (31,309)	$	$ 33,538	$ 2,229

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	December 31, 2012					
				Gross Amounts Not Offset in Balance Sheet		
	Gross Amounts Recognized	Gross Amounts Offset in Balance Sheet	Net Amounts Presented in Balance Sheet	Derivative Instruments	Collateral Pledged	Net Amount
Derivative liabilities	$ (55,712)	$	$ (55,712)	$	$ 55,712	$
	$ (55,712)	$	$ (55,712)	$	$ 55,712	$

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

At June 30, 2013, investment securities available for sale with a carrying amount of $53.9 million and cash on deposit of $11.6 million were pledged as collateral for these interest rate swaps. The amount of collateral required to be posted by the Company varies based on the settlement value of outstanding swaps, which approximates their carrying amount at June 30, 2013.

The Company enters into commitments to fund residential mortgage loans with the intention that these loans will subsequently be sold into the secondary market. A mortgage loan commitment binds the Company to lend funds to a potential borrower at a specified interest rate within a specified period of time, generally 30 to 90 days. These commitments are considered derivative instruments. The notional amount of outstanding mortgage loan commitment derivatives was $11.1 million and $8.0 million at June 30, 2013 and December 31, 2012, respectively. Outstanding derivative loan commitments expose the Company to the risk that the price of the loans arising from exercise of the commitments might decline from inception of the commitment to funding of the loan. To protect against the price risk inherent in derivative loan commitments, the Company utilizes best efforts forward loan sale commitments. Under a best efforts contract, the Company commits to deliver an individual mortgage loan to an investor if the loan to the underlying borrower closes. Generally, the price the investor will pay the Company for a loan is specified prior to the loan being funded. These commitments are considered derivative instruments once the underlying loans are funded. The notional amount of forward loan sale commitment derivatives was $1.5 million and $2.1 million at June 30, 2013 and December 31, 2012, respectively. The fair value of loan commitment and forward sale commitment derivatives was nominal at June 30, 2013 and December 31, 2012.

Note 8 Stockholders Equity

In February 2012, the Company created a series of 5,416,000 shares of preferred stock designated Series A Nonvoting Convertible Preferred Stock , par value $0.01 per share. The preferred stock ranked *pari passu* with the Company s common stock with respect to the payment of dividends or distributions and had a liquidation preference of $0.01 per share. In March 2013, each share of preferred stock outstanding was converted into one share of common stock. Following the conversion, the preferred stock resumed the status of authorized and unissued preferred stock, undesignated as to series and available for future issuance.

Accumulated Other Comprehensive Income

Changes in AOCI for the periods indicated are summarized as follows (in thousands):

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	Three Months Ended June 30,					
	2013			2012		
	Before Tax	Tax Effect	Net of Tax	Before Tax	Tax Effect	Net of Tax
Unrealized gains on investment securities available for sale:						
Net unrealized holding gain (loss) arising during the period	$ (66,509)	$ 25,651	$ (40,858)	$ 16,676	$ (6,433)	$ 10,243
Amounts reclassified to gain on investment securities available for sale, net	(3,536)	1,364	(2,172)	(880)	340	(540)
Net change in unrealized gains on securities available for sale	(70,045)	27,015	(43,030)	15,796	(6,093)	9,703
Unrealized losses on derivative instruments:						
Net unrealized holding gain (loss) arising during the period	18,831	(7,264)	11,567	(7,435)	2,868	(4,567)
Amounts reclassified to interest expense on deposits	1,255	(484)	771	1,213	(468)	745
Amounts reclassified to interest expense on borrowings	3,894	(1,502)	2,392	3,241	(1,250)	1,991
Net change in unrealized losses on derivative instruments	23,980	(9,250)	14,730	(2,981)	1,150	(1,831)
Other comprehensive income (loss)	$ (46,065)	$ 17,765	$ (28,300)	$ 12,815	$ (4,943)	$ 7,872

	Six Months Ended June 30,					
	2013			2012		
	Before Tax	Tax Effect	Net of Tax	Before Tax	Tax Effect	Net of Tax
Unrealized gains on investment securities available for sale:						
Net unrealized holding gain (loss) arising during the period	$ (55,949)	$ 21,556	$ (34,393)	$ 56,749	$ (21,891)	$ 34,858
Amounts reclassified to gain on investment securities available for sale, net	(5,222)	2,014	(3,208)	(896)	346	(550)
Net change in unrealized gains on securities available for sale	(61,171)	23,570	(37,601)	55,853	(21,545)	34,308
Unrealized losses on derivative instruments:						
Net unrealized holding gain (loss) arising during the period	16,197	(6,248)	9,949	(8,462)	3,264	(5,198)
Amounts reclassified to interest expense on deposits	2,496	(963)	1,533	2,427	(936)	1,491
Amounts reclassified to interest expense on borrowings	6,849	(2,642)	4,207	6,457	(2,491)	3,966

Net change in unrealized losses on derivative instruments	25,542	(9,853)	15,689	422	(163)	259
Other comprehensive income (loss)	$ (35,629)	$ 13,717	$ (21,912)	$ 56,275	$ (21,708)	$ 34,567

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

	Unrealized Gains on Investment Securities Available for Sale	Unrealized Losses on Derivative Instruments	Total
Balance, December 31, 2012	$ 113,599	$ (29,623)	$ 83,976
Other comprehensive income	(37,601)	15,689	(21,912)
Balance, June 30, 2013	$ 75,998	$ (13,934)	$ 62,064
Balance, December 31, 2011	$ 55,172	$ (37,153)	$ 18,019
Other comprehensive income	34,308	259	34,567
Balance, June 30, 2012	$ 89,480	$ (36,894)	$ 52,586

Note 9 Fair Value Measurements

Assets and liabilities measured at fair value on a recurring basis

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

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

Derivative financial instruments Interest rate swaps are predominantly traded in over-the-counter markets and, as such, values are determined using widely accepted discounted cash flow modeling techniques. These discounted cash flow models use projections of future cash payments and receipts that are discounted at mid-market rates. Observable inputs that may impact the valuation of these instruments include LIBOR swap rates, LIBOR forward yield curves and counterparty credit risk spreads. These fair value measurements are generally classified within level 2 of the fair value hierarchy. Loan commitment derivatives are priced based on a bid pricing convention adjusted based on the Company s historical fallout rates. Fallout rates are a significant unobservable input; therefore, these fair value measurements are classified within level 3 of the fair value hierarchy. The fair value of loan commitment derivatives is nominal.

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

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	June 30, 2013			
	Level 1	Level 2	Level 3	Total
Investment securities available for sale:				
U.S. Government agency and sponsored enterprise residential mortgage-backed securities	$	$ 1,657,643	$	$ 1,657,643
U.S. Government agency and sponsored enterprise commercial mortgage-backed securities		27,373		27,373
Re-Remics		487,717		487,717
Private label residential mortgage-backed securities and CMOs		137,749	219,714	357,463
Private label commercial mortgage-backed securities		563,411		563,411
Collateralized loan obligations		374,648		374,648
Non-mortgage asset-backed securities		165,493		165,493
Mutual funds and preferred stocks	149,112	1		149,113
State and municipal obligations		23,951		23,951
Small Business Administration securities		331,930		331,930
Other debt securities		3,190	4,351	7,541
Derivative assets		19,144	91	19,235
Total assets at fair value	$ 149,112	$ 3,792,250	$ 224,156	$ 4,165,518
Derivative liabilities	$	$ 47,463	$ 45	$ 47,508
Total liabilities at fair value	$	$ 47,463	$ 45	$ 47,508

	December 31, 2012			
	Level 1	Level 2	Level 3	Total
Investment securities available for sale:				
U.S. Treasury and Government agency securities	$ 20,141	$ 15,013	$	$ 35,154
U.S. Government agency and sponsored enterprise residential mortgage-backed securities		1,584,523		1,584,523
U.S. Government agency and sponsored enterprise commercial mortgage-backed securities		60,416		60,416
Re-Remics		585,042		585,042
Private label residential mortgage-backed securities and CMOs		205,027	243,058	448,085
Private label commercial mortgage-backed securities		433,092		433,092
Collateralized loan obligations		253,188		253,188
Non-mortgage asset-backed securities		241,346		241,346
Mutual funds and preferred stocks	149,279	374		149,653
State and municipal obligations		25,353		25,353
Small Business Administration securities		339,610		339,610
Other debt securities		12,777	4,173	16,950

Derivative assets				4,908				4,908
Total assets at fair value	$	169,420	$	3,760,669	$	247,231	$	4,177,320
Derivative liabilities	$		$	55,712	$	29	$	55,741
Total liabilities at fair value	$		$	55,712	$	29	$	55,741

There were no transfers of financial assets between levels of the fair value hierarchy during the six months ended June 30, 2013 and 2012.

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

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	Three Months Ended June 30, 2013			
	Private Label Residential Mortgage-Backed Securities	**Other Debt Securities**	**Derivative Assets**	**Derivative Liabilities**
Balance at beginning of period	$ 235,205	$ 4,115	$ 18	$ (22)
Gains (losses) for the period included in:				
Net income			73	(23)
Other comprehensive income	(4,706)	254		
Premium and discount (amortization) accretion	2,572	15		
Purchases or issuances				
Sales				
Settlements	(13,357)	(33)		
Transfers into level 3				
Transfers out of level 3				
Balance at end of period	$ 219,714	$ 4,351	$ 91	$ (45)

Three Months Ended June 30, 2012

[redacted]

Balance at beginning of period	$ 444,417	$ 78,010	$ 3,315	$ (37)
Gains (losses) for the period included in:				
Net income				33
Other comprehensive income	(1,922)	49	426	
Premium and discount (amortization) accretion	5,915	106	16	
Purchases or issuances	71,129			
Sales				
Settlements	(31,549)	(2,971)	(21)	
Transfers into level 3				
Transfers out of level 3				
Balance at end of period	$ 487,990	$ 75,194	$ 3,736	$ (4)

	Six Months Ended June 30, 2013			
	Private Label Residential Mortgage-Backed Securities	**Other Debt Securities**	**Derivative Assets**	**Derivative Liabilities**
Balance at beginning of period	$ 243,058	$ 4,173	$	$ (29)
Gains (losses) for the period included in:				
Net income			91	(16)

Other comprehensive income		(2,686)		430				
Premium and discount (amortization) accretion		4,958		30				
Purchases or issuances								
Sales								
Settlements		(25,616)		(282)				
Transfers into level 3								
Transfers out of level 3								
Balance at end of period	$	219,714	$	4,351	$	91	$	(45)

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED

June 30, 2013

	Six Months Ended June 30, 2012			
	Private Label Residential Mortgage-Backed Securities	Non-Mortgage Asset-Backed Securities	Other Debt Securities	Derivative Liabilities
Balance at beginning of period	$ 387,687	$ 79,870	$ 3,159	$
Gains (losses) for the period included in:				
Net income				(4)
Other comprehensive income	6,150	377	588	
Premium and discount (amortization) accretion	7,181	207	31	
Purchases or issuances	144,437			
Sales				
Settlements	(57,465)	(5,260)	(42)	
Transfers into level 3				
Transfers out of level 3				
Balance at end of period	$ 487,990	$ 75,194	$ 3,736	$ (4)

Changes in the fair value of derivatives are included in the consolidated statement of income line item Other non-interest expense.

The following table provides information about the valuation techniques and unobservable inputs used in the valuation of financial instruments falling within level 3 of the fair value hierarchy (dollars in thousands):

	Fair Value at June 30, 2013	Valuation Technique	Unobservable Input	Range (Weighted Average)
Private label residential mortgage-backed securities and CMOs - Covered	$ 187,467	Discounted cash flow	Voluntary prepayment rate Probability of default Loss severity	1.00% - 30.94% (8.42%) 0.00% - 32.81% (6.58%) 0.00% - 70.88% (11.45%)
Private label residential mortgage-backed securities and CMOs - Non-covered	$ 32,247	Discounted cash flow	Voluntary prepayment rate Probability of default Loss severity	6.27% - 30.65% (11.58%) 0.00% - 7.68% (2.41%) 0.00% - 16.48% (3.15%)

The significant unobservable inputs impacting the fair value measurement of private label residential mortgage-backed securities include voluntary prepayment rates, probability of default and loss severity given default. Generally, significant increases in any of those inputs would result in a lower fair value measurement. Alternatively, decreases in any of those inputs would result in a higher fair value measurement. The fair value measurements of those securities with higher levels of subordination will be less sensitive to changes in these unobservable inputs, while securities with lower levels of subordination will show a higher degree of sensitivity to changes in these unobservable inputs. Generally, a change in the assumption used for probability of default is accompanied by a directionally similar change in the assumption used for loss severity given default and a directionally opposite change in the assumption used for voluntary prepayment rate.

Non-covered private label residential mortgage-backed securities for which fair value measurements are classified in level 3 of the fair value hierarchy at June 30, 2013 had an aggregate fair value of $32.2 million. These securities consisted of senior tranches issued from 2003 to 2004 collateralized by prime fixed rate and hybrid 1-4 single family residential mortgages originated from 2002 to 2004. These securities have coupons ranging from 2.7% to 5.5%, ratings ranging from A to AA+ and subordination levels ranging from 7.2% to 12.7%.

The covered securities for which fair value measurements are categorized in level 3 of the fair value hierarchy at June 30, 2013 consisted of pooled trust preferred securities with a fair value of $4.4 million and private label residential mortgage-backed securities with a fair value of $187.5 million. The trust preferred securities are not material to the Company s financial statements. The private label mortgage-backed securities were acquired in the FSB Acquisition and vary significantly with respect to seniority, subordination, collateral type and collateral performance; however, because of the Loss Sharing Agreements, the Company has minimal risk with respect to fluctuations in the value of these securities.

The Company uses third-party pricing services in determining fair value measurements for investment securities that are categorized in level 3 of the fair value hierarchy. To obtain an understanding of the methodologies and assumptions used, management reviews written documentation provided by the pricing services, conducts interviews with valuation desk personnel, performs on-site walkthroughs and reviews model results and detailed assumptions used to value selected securities as considered necessary. Management has established a robust price challenge process that includes a review by the treasury front office of all prices provided on a monthly basis. Any price evidencing unexpected month over month fluctuations or deviations from expectations is challenged. If considered necessary to resolve any discrepancies, a price will be obtained from an additional independent valuation source. The Company does not typically adjust the prices provided, other than through this established challenge process. The results of price challenges are subject to review by executive management. The Company has also established a quarterly process whereby prices provided by its primary pricing service for a sample of securities are validated. When there are price discrepancies, the final determination of fair value is based on careful consideration of the assumptions and inputs employed by each of the pricing sources.

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

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

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

The following tables present assets for which nonrecurring changes in fair value have been recorded for the periods indicated (in thousands):

Losses from Fair Value Changes

	June 30, 2013				Three Months Ended	Six Months Ended
	Level 1	Level 2	Level 3	Total	June 30, 2013	
OREO	$	$	$ 50,041	$ 50,041	$ (419)	$ (1,699)
Impaired loans	$	$	$ 14,962	$ 14,962	$ (2,890)	$ (15,567)

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	June 30, 2012				Losses from Fair Value Changes	
					Three Months Ended	Six Months Ended
	Level 1	Level 2	Level 3	Total	June 30, 2012	
OREO	$	$	$ 93,724	$ 93,724	$ (3,048)	$ (6,595)
Impaired loans	$	$	$ 3,108	$ 3,108	$	$ (500)

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

		June 30, 2013		December 31, 2012	
	Level	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets:					
Cash and cash equivalents	1	$ 213,552	$ 213,552	$ 495,353	$ 495,353
Investment securities available for sale	1/2/3	4,146,283	4,146,283	4,172,412	4,172,412
Non-marketable equity securities	2	142,391	142,391	133,060	133,060
Loans held for sale	2	1,539	1,577	2,129	2,151
Loans:					
Covered	3	1,628,734	2,424,029	1,846,482	2,508,466
Non-covered	3	5,120,160	5,072,948	3,666,136	3,718,377
FDIC Indemnification asset	3	1,345,134	1,038,845	1,457,570	1,285,434
Accrued interest receivable	2	24,080	24,080	22,059	22,059
Derivative assets	2/3	19,235	19,235	4,908	4,908
Liabilities:					
Demand, savings and money market deposits	2	$ 6,343,353	$ 6,343,353	$ 5,897,362	$ 5,897,362
Time deposits	2	2,687,562	2,710,214	2,640,711	2,666,780
Short-term borrowings	2	1,644	1,644	8,175	8,175
Federal Home Loan Bank advances	2	2,196,605	2,200,933	1,916,919	1,929,316
Accrued interest payable	2	2,228	2,228	3,877	3,877
Derivative liabilities	2/3	47,508	47,508	55,741	55,741

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

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

Non-marketable equity securities:

Non-marketable equity securities include FHLB, Federal Reserve Bank and banker s bank stock. There is no market for these securities, which can be liquidated only by redemption by the issuer. These securities are carried at par, which has historically represented the redemption price and is therefore considered to approximate fair value. Non-marketable equity securities are evaluated quarterly for potential impairment.

Loans held for sale:

The fair value of conforming loans originated and held for sale is based on pricing currently available to the Company in the secondary market.

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ACI and non-ACI loans:

Fair values are estimated based on a discounted cash flow analysis. Estimates of future cash flows incorporate various factors that may include the type of loan and related collateral, collateral values, estimated default probability and loss severity given default, internal risk rating, whether the interest rate is fixed or variable, term of loan, whether or not the loan is amortizing and loan specific net realizable value analyses for certain commercial and commercial real estate loans. The fair values of loans accounted for in pools are estimated on a pool basis. Other loans may be grouped based on risk characteristics and fair value estimated in the aggregate when applying discounted cash flow valuation techniques. Discount rates are based on current market rates for new originations of comparable loans adjusted for liquidity and credit risk premiums that the Company believes would be required by market participants.

New loans:

Fair values are estimated using a discounted cash flow analysis with a discount rate based on interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. The ALLL is considered a reasonable estimate of the required adjustment to fair value to reflect the impact of credit risk. This estimate may not represent an exit value as defined in ASC 820.

FDIC indemnification asset:

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

Deposits:

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

Federal Home Loan Bank advances:

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

Note 10 Commitments and Contingencies

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

Commitments to fund loans:

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

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Unfunded commitments under lines of credit:

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

Commercial and standby letters of credit:

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

Total lending related commitments outstanding at June 30, 2013 were as follows (in thousands):

	Covered	Non-Covered	Total
Commitments to fund loans	$	$ 820,773	$ 820,773
Commitments to purchase loans		89,164	89,164
Unfunded commitments under lines of credit	59,454	669,659	729,113
Commercial and standby letters of credit		31,710	31,710
	$ 59,454	$ 1,611,306	$ 1,670,760

Legal Proceedings

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

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

The following discussion and analysis is intended to focus on significant changes in the financial condition and results of operations of the Company during the three and six months ended June 30, 2013 and should be read in conjunction with the consolidated financial statements and notes thereto included in this Quarterly Report on Form 10-Q and BKU s 2012 Annual Report on Form 10-K for the year ended December 31, 2012 (the Annual Report on Form 10-K).

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 that reflect the Company s current views with respect to, among other things, future events and financial performance. Words such as anticipates, expects, intends, plans, believes, seeks, estimates and similar expressions identify forward-looking statements. These forward-looking statements are based on the historical performance of the Company or on the Company s current plans, estimates and expectations. The inclusion of this forward-looking information should not be regarded as a representation by the Company that the future plans, estimates or expectations so contemplated will be achieved. Such forward-looking statements are subject to various risks and uncertainties and assumptions relating to the Company s operations, financial results, financial condition, business prospects, growth strategy and liquidity. If one or more of these or other risks or uncertainties materialize, or if the Company s underlying assumptions prove to be incorrect, the Company s actual results may vary materially from those indicated in these statements. A number of important factors could cause actual results to differ materially from those indicated by the forward-looking statements, including, but not limited to, the risk factors described in Part I, Item 1A of the 2012 Annual Report on Form 10-K. The Company does not undertake any obligation to publicly update or review any forward looking statement, whether as a result of new information, future developments or otherwise.

Quarterly Highlights

- Net income for the quarter ended June 30, 2013 was $54.0 million, or $0.52 per diluted share as compared to $48.9 million, or $0.48 per diluted share, for the quarter ended June 30, 2012.

- New loans grew by $1.1 billion during the second quarter of 2013, continuing to outpace the resolution of covered loans. Net of the resolution of covered loans, loans grew $963 million during the second quarter of 2013 to $6.8 billion at June 30, 2013.

- Net interest income increased by $18.3 million to $164.1 million for the quarter ended June 30, 2013 from $145.8 million for the quarter ended June 30, 2012. Interest income increased by $8.1 million primarily as a result of an increase in the average balance of loans outstanding, partially offset by a decline in the tax-equivalent yield on average earning assets to 6.96% from 7.21%. Interest expense decreased by $10.1 million due primarily to a decline in the cost of interest-bearing liabilities to 0.95% from 1.38%.

- Net interest margin, calculated on a tax-equivalent basis, was 6.14% for the quarter ended June 30, 2013 compared to 5.92% for the quarter ended June 30, 2012. The most significant factor leading to this increase is a $1.3 billion increase in the average balance of loans, with a corresponding increase of $12.8 million in tax-equivalent interest earned. Also contributing to the increase in net interest margin is a decline in the cost of deposits and other borrowings.

- The Company opened two additional banking centers in Manhattan during the second quarter of 2013, which was the first full quarter of operations for the New York franchise, bringing the total number of banking centers to four. One new branch opened in Florida during the quarter ended June 30, 2013.

- Asset quality remained strong, with a ratio of non-performing assets to total assets of 0.66% and a ratio of non-performing loans to total loans of 0.54%.

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- Deposits increased to $9.0 billion at June 30, 2013 compared to $8.5 billion at December 31, 2012 with interest and non-interest bearing demand deposits increasing to $2.2 billion, or 24% of total deposits.

- The Company s capital ratios exceeded all regulatory well capitalized guidelines, with a Tier 1 leverage ratio of 13.7%, a Tier 1 risk-based capital ratio of 27.9% and a Total risk-based capital ratio of 28.9% at June 30, 2013.

- Book value and tangible book value per common share were $18.43 and $17.74, respectively, at June 30, 2013.

Results of Operations

Net Interest Income

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

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

Net interest income is also impacted by the accounting for ACI loans and to a declining extent, the accretion of fair value adjustments recorded in conjunction with the FSB Acquisition. ACI loans were initially recorded at fair value, measured based on the present value of expected cash flows. The excess of expected cash flows over carrying value, known as accretable yield, is recognized as interest income over the lives of the underlying loans. The positive impact of accretion related to ACI loans on net interest income, the net interest margin and the interest rate spread has declined and is expected to continue to decline as ACI loans comprise a declining percentage of total loans. The proportion of total loans represented by ACI loans will decline as the ACI loans are resolved and new loans are added to the portfolio. ACI loans represented 21.2% and 29.1% of total loans, net of premiums, discounts, deferred fees and costs, at June 30, 2013 and December 31, 2012, respectively. As the impact of accretion related to ACI loans declines, we expect our net interest margin and interest rate spread to decrease.

Consideration received earlier than expected or in excess of expected cash flows may result in a pool of ACI residential loans becoming fully amortized and its carrying value reduced to zero even though outstanding contractual balances remain related to loans in the pool. Once the carrying value of a pool is reduced to zero, representing further realization of accretable yield, any future proceeds from the remaining loans are recognized as interest income upon receipt. The carrying value of one pool has been reduced to zero. Future expected cash flows from this pool totaled $73.9 million as of June 30, 2013. The UPB of loans remaining in this pool was $134.9 million at June 30, 2013. The timing of receipt of proceeds from loans in this pool may be unpredictable, leading to increased volatility in loan yields.

Fair value adjustments of interest earning assets and interest bearing liabilities recorded at the time of the FSB Acquisition are accreted to interest income or expense over the lives of the related assets or liabilities. Generally, accretion of these fair value adjustments increases interest income and decreases interest expense, and thus has a positive impact on our net interest income, net interest margin and interest rate spread. The impact of accretion of fair value adjustments on interest income and interest expense will continue to decline as these assets and liabilities mature or are repaid and constitute a smaller portion of total interest earning assets and interest bearing liabilities.

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

The following table presents, for the periods indicated, information about (i) average balances, the total dollar amount of taxable equivalent interest income from earning assets and the resultant average yields; (ii) average balances, the total dollar amount of interest expense on interest bearing liabilities and the resultant average rates; (iii) net interest income; (iv) the interest rate spread; and (v) the net interest margin. Nonaccrual and restructured loans are included in the average balances presented in this table; however, interest income foregone on nonaccrual loans is not included. Yields have been calculated on a tax equivalent basis (dollars in thousands):

	Three Months Ended June 30,					
	2013			2012		
	Average Balance	Interest (1)	Yield/ Rate (2)	Average Balance	Interest (1)	Yield/ Rate (2)
Assets:						
Interest earning assets:						
Loans	$ 6,090,890	$ 156,338	10.28%	$ 4,813,393	$ 143,534	11.95%
Investment securities available for sale	4,378,894	30,904	2.82%	4,688,632	35,544	3.03%
Other interest earning assets	370,874	1,142	1.23%	522,874	1,235	0.95%
Total interest earning assets	10,840,658	188,384	6.96%	10,024,899	180,313	7.21%
Allowance for loan and lease losses	(64,051)			(57,351)		
Non-interest earning assets	2,057,070			2,414,312		
Total assets	$ 12,833,677			$ 12,381,860		
Liabilities and Stockholders Equity:						
Interest bearing liabilities:						
Interest bearing demand deposits	$ 570,147	638	0.45%	$ 502,313	814	0.65%
Savings and money market deposits	4,135,375	4,820	0.47%	3,958,633	6,491	0.66%
Time deposits	2,636,693	8,700	1.32%	2,624,250	9,742	1.49%
Total interest bearing deposits	7,342,215	14,158	0.77%	7,085,196	17,047	0.97%
Borrowings:						
FHLB advances	1,988,422	7,888	1.59%	2,229,410	15,036	2.71%
Short-term borrowings	2,057	2	0.46%	35,244	35	0.40%
Total interest bearing liabilities	9,332,694	22,048	0.95%	9,349,850	32,118	1.38%
Non-interest bearing demand deposits	1,473,085			1,055,998		
Other non-interest bearing liabilities	163,201			302,923		
Total liabilities	10,968,980			10,708,771		
Stockholders equity	1,864,697			1,673,089		
Total liabilities and stockholders equity	$ 12,833,677			$ 12,381,860		
Net interest income		$ 166,336			$ 148,195	
Interest rate spread			6.01%			5.83%
Net interest margin			6.14%			5.92%

(1) On a tax-equivalent basis where applicable

(2) Annualized

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	Six Months Ended June 30,					
	2013			2012		
	Average Balance	Interest (1)	Yield/ Rate (2)	Average Balance	Interest (1)	Yield/ Rate (2)
Assets:						
Interest earning assets:						
Loans	$ 5,841,813	$ 302,887	10.40%	$ 4,544,554	$ 279,831	12.37%
Investment securities available for sale	4,354,538	61,657	2.83%	4,543,664	70,047	3.08%
Other interest earning assets	499,805	2,421	0.97%	523,792	2,189	0.84%
Total interest earning assets	10,696,156	366,965	6.88%	9,612,010	352,067	7.35%
Allowance for loan and lease losses	(62,517)			(53,604)		
Non-interest earning assets	2,086,104			2,427,300		
Total assets	$ 12,719,743			$ 11,985,706		
Liabilities and Stockholders Equity:						
Interest bearing liabilities:						
Interest bearing demand deposits	$ 557,427	1,309	0.47%	$ 488,606	1,581	0.65%
Savings and money market deposits	4,140,073	9,984	0.49%	3,809,788	12,924	0.68%
Time deposits	2,635,927	17,747	1.36%	2,601,538	19,502	1.51%
Total interest bearing deposits	7,333,427	29,040	0.80%	6,899,932	34,007	0.99%
Borrowings:						
FHLB advances	1,939,513	15,578	1.62%	2,231,918	30,555	2.75%
Short-term borrowings	8,446	18	0.43%	18,226	37	0.41%
Total interest bearing liabilities	9,281,386	44,636	0.97%	9,150,076	64,599	1.42%
Non-interest bearing demand deposits	1,403,161			959,564		
Other non-interest bearing liabilities	186,630			247,370		
Total liabilities	10,871,177			10,357,010		
Stockholders equity	1,848,566			1,628,696		
Total liabilities and stockholders equity	$ 12,719,743			$ 11,985,706		
Net interest income		$ 322,329			$ 287,468	
Interest rate spread			5.91%			5.93%
Net interest margin			6.04%			6.00%

(1) On a tax-equivalent basis where applicable

(2) Annualized

Three months ended June 30, 2013 compared to three months ended June 30, 2012

Net interest income, calculated on a tax-equivalent basis, was $166.3 million for the three months ended June 30, 2013 compared to $148.2 million for the three months ended June 30, 2012, an increase of $18.1 million. The increase in net interest income was comprised of an increase in interest income of $8.1 million and a decrease in interest expense of $10.1 million.

The increase in tax-equivalent interest income resulted primarily from a $12.8 million increase in interest income from loans offset by a $4.6 million decrease in interest income from investment securities available for sale.

Increased interest income from loans was attributable to a $1.3 billion increase in the average balance outstanding offset by a 1.67% decrease in the tax equivalent yield to 10.28% for the quarter ended June 30, 2013 from 11.95% for the quarter ended June 30, 2012. Offsetting factors contributing to the overall decline in the yield on loans included:

- New loans originated at lower market rates of interest comprised a greater percentage of the portfolio for the quarter ended June 30, 2013 than for the comparable period in 2012. New loans represented 72.13% of the average balance of loans outstanding for the quarter ended June 30, 2013 as compared to 53.39% for the quarter ended June 30, 2012. This trend is expected to continue.

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- The tax equivalent yield on new loans declined to 3.87% for the quarter ended June 30, 2013 from 4.49% for the quarter ended June 30, 2012, primarily reflecting the addition of loans to the portfolio at lower market rates.

- The yield on covered loans increased to 26.86% for the quarter ended June 30, 2013 from 20.50% for the comparable quarter in 2012. The increase in the yield on covered loans resulted from (i) reclassifications from non-accretable difference to accretable yield due to an increase in expected cash flows, (ii) the inclusion of proceeds of $15.5 million from the sale of ACI residential loans from the pool with a carrying value of zero in interest income for the quarter ended June 30, 2013 and (iii) an increase in the favorable impact of resolutions of covered commercial loans.

The average balance of investment securities available for sale decreased by $310 million for the three months ended June 30, 2013 from the three months ended June 30, 2012 while the tax-equivalent yield declined to 2.82% for the three months ended June 30, 2013 from 3.03% for the same period in 2012. The decline in yield resulted from lower prevailing market interest rates and changes in portfolio composition.

The primary components of the decrease in interest expense for the three months ended June 30, 2013 as compared to the three months ended June 30, 2012 were a $2.9 million decline in interest expense on deposits and a $7.1 million decline in interest expense on FHLB advances. The most significant factor contributing to the decline in interest expense on deposits was a decline in market interest rates, leading to a decrease in the average rate paid on interest bearing deposits to 0.77% for the three months ended June 30, 2013 from 0.97% for the three months ended June 30, 2012. The average rate paid on FHLB advances, inclusive of the impact of cash flow hedges and fair value accretion, declined by 1.12% to 1.59% for the three months ended June 30, 2013 from 2.71% for the three months ended June 30, 2012. This decline reflected the impact of the extinguishment and maturity of higher rate advances.

The net interest margin, calculated on a tax-equivalent basis, for the three months ended June 30, 2013 was 6.14% as compared to 5.92% for the three months ended June 30, 2012, an increase of 22 basis points. The interest rate spread increased to 6.01% for the three months ended June 30, 2013 from 5.83% for the three months ended June 30, 2012. Factors contributing to the increase in net interest margin and interest rate spread included (i) the growth in new loans and corresponding increase in loans as a percent of total interest-earning assets, (ii) increased yields on covered loans, (iii) the increase in interest-earning assets as a percent of total assets, (iv) a lower cost of funds and (v) the increase in non-interest bearing deposits. Average non-interest bearing deposits as a percentage of average total deposits increased by 3.7% to 16.7% for the three months ended June 30, 2013 compared to the three months ended June 30, 2012. These factors were partly offset by lower yields on new loans and investment securities. We expect the net interest margin and interest rate spread to decrease in future periods as new loans are added to the portfolio at lower current rates.

Six months ended June 30, 2013 compared to six months ended June 30, 2012

Net interest income, calculated on a tax-equivalent basis, was $322.3 million for the six months ended June 30, 2013 compared to $287.5 million for the six months ended June 30, 2012, an increase of $34.9 million. The increase in net interest income was comprised of an increase in interest income of $14.9 million and a decrease in interest expense of $20.0 million.

The increase in tax-equivalent interest income resulted primarily from a $23.1 million increase in interest income from loans offset by an $8.4 million decrease in interest income from investment securities available for sale.

Increased interest income from loans was attributable to a $1.3 billion increase in the average balance outstanding offset by a 1.97% decrease in the tax equivalent yield to 10.40% for the six months ended June 30, 2013 from 12.37% for the six months ended June 30, 2012. Offsetting factors contributing to the overall decline in the yield on loans included:

- New loans originated at lower market rates of interest comprised a greater percentage of the portfolio for the six months ended June 30, 2013 than for the comparable period in 2012. New loans represented

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70.0% of the average balance of loans outstanding for the six months ended June 30, 2013 as compared to 49.3% for the six months ended June 30, 2012.

- The tax equivalent yield on new loans declined to 3.94% for the six months ended June 30, 2013 from 4.55% for the six months ended June 30, 2012, primarily reflecting the addition of loans to the portfolio at lower market rates.

- The yield on covered loans increased to 25.47% for the six months ended June 30, 2013 from 19.99% for the six months ended June 30, 2012. The increase in the yield on covered loans resulted from (i) reclassifications from non-accretable difference to accretable yield due to an increase in expected cash flows, (ii) the inclusion of proceeds of $25.8 million from the sale of ACI residential loans from the pool with a carrying value of zero in interest income for the six months ended June 30, 2013 and (iii) an increase in the favorable impact of resolutions of covered commercial loans.

The average balance of investment securities available for sale decreased by $189 million for the six months ended June 30, 2013 from the six months ended June 30, 2012 while the tax-equivalent yield declined to 2.83% for the six months ended June 30, 2013 from 3.08% for the same period in 2012. The decline in yield resulted from lower prevailing market interest rates and changes in portfolio composition.

The primary components of the decrease in interest expense for the six months ended June 30, 2013 as compared to the six months ended June 30, 2012 were a $5.0 million decline in interest expense on deposits and a $15.0 million decline in interest expense on FHLB advances. The most significant factor contributing to the decline in interest expense on deposits was a decline in market interest rates, leading to a decrease in the average rate paid on interest bearing deposits to 0.80% for the six months ended June 30, 2013 from 0.99% for the six months ended June 30, 2012. The average rate paid on FHLB advances, inclusive of the impact of cash flow hedges and fair value accretion, declined by 1.13% to 1.62% for the six months ended June 30, 2013 from 2.75% for the six months ended June 30, 2012. This decline reflected the impact of the extinguishment and maturity of higher rate advances.

The net interest margin, calculated on a tax-equivalent basis, for the six months ended June 30, 2013 was 6.04% as compared to 6.00% for the six months ended June 30, 2012, an increase of 4 basis points. The interest rate spread decreased to 5.91% for the six months ended June 30, 2013 from 5.93% for the six months ended June 30, 2012. The primary factors contributing to the increase in net interest margin include the increase in loans as a percent of total interest-earning assets, increased yields on covered loans, the increase in interest-earning assets as a percent of total assets, lower cost of funds and a favorable shift in the composition of deposits. Average non-interest bearing deposits as a percentage of average total deposits increased by 3.9% to 16.1% for the six months ended June 30, 2013 compared to the six months ended June 30, 2012. These factors were largely offset by lower yields on new loans and investment securities. Similarly, the primary factors contributing to the small decrease in the interest rate spread were the lower yields on new loans and investment securities, largely offset by the growth of loans, increased yields on covered loans and lower cost of funds.

Provision for Loan Losses

The provision for loan losses is the amount of expense that, based on our judgment, is required to maintain the ALLL at an adequate level to absorb probable losses inherent in the loan portfolio at the balance sheet date and that, in management s judgment, is appropriate under U.S. generally accepted accounting principles. The determination of the amount of the ALLL is complex and involves a high degree of judgment and subjectivity. Our determination of the amount of the allowance and corresponding provision for loan losses considers ongoing evaluations of the various segments of the loan portfolio and of individually significant credits, levels of non-performing loans and charge-offs, statistical trends and economic and other relevant factors. See Analysis of the Allowance for Loan and Lease Losses below for more information about how we determine the appropriate level of the allowance.

Because the determination of fair value at which the loans acquired in the FSB Acquisition were initially recorded encompassed assumptions about expected future cash flows and credit risk, no ALLL was recorded at the date of acquisition. An allowance related to ACI loans is recorded only when estimates of future cash flows related to these loans are revised downward, indicating further deterioration in credit quality. An allowance for non-ACI

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loans may be established if factors considered relevant by management indicate that the credit quality of the non-ACI loans has deteriorated.

Since the recognition of a provision for (recovery of) loan losses on covered loans represents an increase (reduction) in the amount of reimbursement we ultimately expect to receive from the FDIC, we also record an increase (decrease) in the FDIC indemnification asset for the present value of the projected increase (reduction) in reimbursement, with a corresponding increase (decrease) in non-interest income, recorded in Net loss on indemnification asset as discussed below in the section entitled Non-interest income. Therefore, the impact on our results of operations of any provision for (recovery of) loan losses on covered loans is significantly mitigated by the corresponding impact on non-interest income. For the three months ended June 30, 2013 and 2012, we recorded provisions for (recoveries of) losses on covered loans of $(3.0) million and $(1.5) million and decreases in related non-interest income of $(2.3) million and $(0.9) million, respectively. For the six months ended June 30, 2013 and 2012, we recorded provisions for losses on covered loans of $1.8 million and $0.1 million and increases in related non-interest income of $1.4 million and $0.7 million, respectively.

For the three months ended June 30, 2013 and 2012, we recorded provisions for loan losses of $7.8 million and $4.2 million, respectively, related to new loans. For the six months ended June 30, 2013 and 2012, we recorded provisions for loan losses of $15.0 million and $11.4 million, respectively, related to new loans. These loans are not protected by the Loss Sharing Agreements and as such, these provisions are not offset by increases in non-interest income. The increase in the provision for losses on new loans for the three months ended June 30, 2013 was driven primarily by the growth in the new loan portfolio, partially offset by reductions in general loss factors. The increase in the provision for new loans for the six months ended June 30, 2013 was driven primarily by the growth in the new loan portfolio and losses of $12.3 million recognized on one commercial loan relationship, partially offset by updated loss factors applied in determining the ALLL, particularly for the new residential portfolio. See the section entitled Analysis of the Allowance for Loan and Lease Losses below for further discussion.

Non-Interest Income

The Company reported non-interest income of $6.1 million and $21.7 million for the three months ended June 30, 2013 and 2012, respectively. Non-interest income was $23.9 million and $58.1 million for six months ended June 30, 2013 and 2012, respectively. The following table presents a comparison of the categories of non-interest income for the periods indicated (in thousands):

	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
(Amortization) accretion of FDIC indemnification asset	$ (7,150)	$ 4,294	$ (9,430)	$ 11,081
Income from resolution of covered assets, net	20,580	14,803	39,770	22,085
Net loss on indemnification asset	(17,683)	(12,537)	(29,370)	(12,403)
FDIC reimbursement of costs of resolution of covered assets	2,261	3,333	5,125	9,849
Loss on sale of covered loans	(4,311)		(5,082)	
OTTI on covered investment securities available for sale	(963)		(963)	
Non-interest income (expense) from covered assets	(7,266)	9,893	50	30,612
Service charges and fees	3,379	3,229	6,721	6,345
Gain on sale of non-covered loans	196	253	381	509
Gain on sale of non-covered investment securities available for sale, net	4,499	880	6,185	896
Mortgage insurance income	631	2,649	902	6,339
Other non-interest income	4,641	4,762	9,684	13,363
	$ 6,080	$ 21,666	$ 23,923	$ 58,064

Non-interest income related to transactions in the covered assets

Historically, a significant portion of our non-interest income has resulted from transactions related to the resolution of assets covered by our Loss Sharing Agreements with the FDIC and (amortization) accretion of discount on the FDIC indemnification asset. As covered assets continue to decline as a percentage of total assets, we expect the impact of these transactions on results of operations to decrease.

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As anticipated, the Company began amortizing the FDIC indemnification asset in 2013. In prior periods, we recorded accretion of discount on the FDIC indemnification asset. Non-interest income included amortization of the FDIC indemnification asset of $(7.2) million and $(9.4) million, respectively, for the three and six months ended June 30, 2013 compared to accretion of $4.3 million and $11.1 million, respectively, for the three and six months ended June 30, 2012.

The FDIC indemnification asset was initially recorded at its estimated fair value of $3.4 billion, representing the present value of estimated future cash payments from the FDIC for probable losses on covered assets, up to 90 days of past due interest, excluding interest related to loans on nonaccrual at acquisition, and reimbursement of certain expenses. As projected cash flows from the ACI loans have increased, the yield on the loans has increased accordingly and the estimated future cash payments from the FDIC have decreased. This change in estimated cash flows is recognized prospectively, consistent with the recognition of the increased cash flows from the ACI loans. As a result, beginning in the first quarter of 2013, the FDIC indemnification asset is being amortized to the amount of the estimated future cash flows. The rate of amortization on the FDIC indemnification asset was (2.08)% and (1.35)%, respectively, for the three and six months ended June 30, 2013, as compared to the rate of accretion on the indemnification asset of 0.99% and 1.23%, respectively, for the three and six months ended June 30, 2012.

The rate of amortization will increase if estimated future cash payments from the FDIC decrease. If recent trends continue, we expect the rate of amortization of the indemnification asset to increase in future periods. The amount of amortization is impacted by both the change in the amortization rate and the decrease in the average balance of the indemnification asset. The average balance of the indemnification asset decreased primarily as a result of the submission of claims and receipt of cash from the FDIC under the terms of the Loss Sharing Agreements. As we continue to submit claims under the Loss Sharing Agreements and recognize periodic amortization, the balance of the indemnification asset will continue to decline.

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

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

- impairment of OREO.

Each of these types of transactions is discussed further below.

A rollforward of the FDIC indemnification asset for the year ended December 31, 2012 and the six months ended June 30, 2013, follows (in thousands):

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Balance, December 31, 2011	$	2,049,151
Accretion		15,306
Reduction for claims filed		(600,857)
Net loss on indemnification asset		(6,030)
Balance, December 31, 2012		1,457,570
Amortization		(9,430)
Reduction for claims filed		(73,636)
Net loss on indemnification asset		(29,370)
Balance, June 30, 2013	$	1,345,134

Covered loans may be resolved through prepayment, short sale of the underlying collateral, foreclosure, sale of the loans or charge-off. For loans resolved through prepayment, short sale or foreclosure, the difference between consideration received in resolution of the loans and the carrying value of the loans is recorded in the consolidated statement of income line item Income from resolution of covered assets, net. Both gains and losses on individual resolutions are included in this line item. Losses from the resolution of covered loans increase the amount recoverable from the FDIC under the Loss Sharing Agreements. Gains from the resolution of covered loans reduce the amount recoverable from the FDIC under the Loss Sharing Agreements. These additions to or reductions in amounts recoverable from the FDIC related to the resolution of covered loans are recorded in non-interest income in the line item Net loss on indemnification asset and reflected as corresponding increases or decreases in the FDIC indemnification asset. The amount of income or loss recorded in any period will be impacted by the number and UPB of covered loans resolved, the amount of consideration received, and our ability to accurately project cash flows from ACI loans in future periods.

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

	Three Months Ended June 30,				Six Months Ended June 30,			
		2013		2012		2013		2012
Payments in full	$	16,988	$	19,764	$	33,978	$	34,931
Foreclosures		(172)		(6,776)		(2,512)		(13,679)
Short sales		(232)		(715)		(1,933)		(2,604)
Charge-offs		(111)		(261)		(694)		(1,236)
Recoveries		4,107		2,791		10,931		4,673
Income from resolution of covered assets, net	$	20,580	$	14,803	$	39,770	$	22,085

Income from resolution of covered assets, net was $20.6 million and $39.8 million, respectively, for the quarter and six months ended June 30, 2013 compared to $14.8 million and $22.1 million for the quarter and six months ended June 30, 2012. This increase in income resulted mainly from increased recoveries on commercial loans and lower losses from residential foreclosure resolutions.

A decline in the level of foreclosure activity coupled with improving home prices led to a decrease in losses on resolutions from foreclosures for the three and six months ended June 30, 2013 as compared to the same periods in 2012. Recoveries increased for the three and six months ended June 30, 2013 due primarily to a small number of large commercial loan recoveries totaling approximately $3.4 million and $7.5 million, respectively.

The impact of sales of covered loans for the three and six months ended June 30, 2013, are summarized as follows (in thousands):

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	Three Months Ended June 30, 2013	Six Months Ended June 30, 2013
Unpaid principal balance of loans sold	$ 69,980	$ 102,238
Cash proceeds, net of transaction costs	$ 36,451	$ 53,182
Carrying value of loans sold	25,238	32,502
Net pre-tax impact on earnings, excluding gain on indemnification asset	$ 11,213	$ 20,680
Loss on sale of covered loans	$ (4,311)	$ (5,082)
Proceeds recorded in interest income	15,524	25,762
	$ 11,213	$ 20,680
Gain on indemnification asset	$ 4,952	$ 6,168

No covered loans were sold during the three and six months ended June 30, 2012.

Loans were sold on a non-recourse basis to third parties. For the three and six months ended June 30, 2013, loans with an aggregate UPB of $29.9 million and $49.9 million, respectively, were sold from the pool of residential ACI loans with a carrying value of zero, and the proceeds of $15.5 million and $25.8 million, respectively, were recorded in interest income during those periods. Since reimbursements from the FDIC under the Loss Sharing Agreements are calculated based on UPB of the loans rather than on their financial statement carrying amounts, the gain on indemnification asset recorded related to the sale of covered loans included a component related to the sale of loans from the zero carrying value pool. We anticipate that we will continue to sell covered loans quarterly, however, we expect the impact of the sale of loans from the zero carrying value pool to decline in the future.

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

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

As discussed further in the section entitled Investment Securities Available for Sale , the net loss on indemnification asset for the three and six months ended June 30, 2013 was also impacted by an OTTI loss recognized on one covered security.

Net loss on indemnification asset was $(17.7) million and $(29.4) million, respectively, for the quarter and six months ended June 30, 2013, compared to $(12.5) million and $(12.4) million for the quarter and six months ended June 30, 2012. Significant factors impacting the changes from 2012 to 2013 included increased income from resolution of covered assets, net, the loss on sale of covered loans, reduced OREO impairment and more favorable results from the sale of OREO, as discussed further below.

The net impact on earnings before taxes of transactions related to covered assets for the three and six months ended June 30, 2013 were $6.2 million and $7.9 million, respectively as compared with $2.2 million and

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$3.1 million, respectively, for the three and six months ended June 30, 2012, as detailed in the following tables (in thousands):

	Three Months Ended June 30, 2013			Three Months Ended June 30, 2012		
	Transaction Income (Loss)	Net Loss on Indemnification Asset	Net Impact on Pre-tax Earnings	Transaction Income (Loss)	Net Loss on Indemnification Asset	Net Impact on Pre-tax Earnings
Recovery of losses on covered loans	$ 2,951	$ (2,349)	$ 602	$ 1,484	$ (922)	$ 562
Income from resolution of covered assets, net	20,580	(16,714)	3,866	14,803	(12,923)	1,880
Loss on sale of covered loans	(4,311)	4,952	641			
OTTI on covered investment securities available for sale	(963)	770	(193)			
Gain on sale of OREO	6,091	(4,677)	1,414	1,490	(1,130)	360
Impairment of OREO	(419)	335	(84)	(3,048)	2,438	(610)
	$ 23,929	$ (17,683)	$ 6,246	$ 14,729	$ (12,537)	$ 2,192

[redacted]

Provision for losses on covered loans	$ (1,849)	$ 1,394	$ (455)	$ (116)	$ 673	$ 557
Income from resolution of covered assets, net	39,770	(33,558)	6,212	22,085	(18,375)	3,710
Loss on sale of covered loans	(5,082)	6,168	1,086			
OTTI on covered investment securities available for sale	(963)	770	(193)			
Gain on sale of OREO	7,122	(5,502)	1,620	89	23	112
Impairment of OREO	(1,699)	1,358	(341)	(6,595)	5,276	(1,319)
	$ 37,299	$ (29,370)	$ 7,929	$ 15,463	$ (12,403)	$ 3,060

Certain OREO and foreclosure related expenses associated with covered assets, including fees paid to attorneys and other service providers, property preservation costs, maintenance and repair costs, advances for taxes and insurance, appraisal costs and inspection costs are also reimbursed under the terms of the Loss Sharing Agreements. Such expenses are recorded in non-interest expense when incurred, and the reimbursement is recorded as FDIC reimbursement of costs of resolution of covered assets in non-interest income when submitted to the FDIC, generally upon ultimate resolution of the underlying covered assets. This may result in the expense and the related income from reimbursements being recorded in different periods. For the three months ended June 30, 2013 and 2012, non-interest expense included $2.6 million and $5.1 million, respectively, of expenses subject to reimbursement at the 80% level under the Loss Sharing Agreements. For the six months ended June 30, 2013 and 2012, non-interest expense included $4.0 million and $10.0 million, respectively, of such expenses. During the three months ended June 30, 2013 and 2012, claims of $2.3 million and $3.3 million, respectively, were submitted to the FDIC for reimbursement and for the six months ended June 30, 2013 and 2012, claims of $5.1 million and $9.8 million, respectively, were submitted. As of June 30, 2013, $14.5 million of expenses incurred to date remained to be submitted for reimbursement from the FDIC in future periods.

Other components of non-interest income

Gains on investment securities available for sale for the quarter ended June 30, 2013 related primarily to the sale of longer duration, fixed-rate securities and the deployment of proceeds to fund loan originations. Realized gains of $4.5 million for the quarter were offset by the recognition of OTTI of $1.0 million on one covered security, as discussed more fully in Note 3 to the consolidated financial statements. Securities gains for the six months ended June 30, 2013 also included gains from the sale of securities in conjunction with the merger of Herald into BankUnited.

Mortgage insurance income represents mortgage insurance proceeds received with respect to covered loans in excess of the portion of losses on those loans that is recoverable from the FDIC. Mortgage insurance proceeds up to the amount of losses on covered loans recoverable from the FDIC offset amounts otherwise reimbursable by the

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FDIC. The declines in mortgage insurance income for the three and six months ended June 30, 2013 as compared with the three and six months ended June 30, 2012 reflect the lower volume of covered loan resolution activity.

Other non-interest income was $9.7 million for the six months ended June 30, 2013 compared to $13.4 million for the six months ended June 30, 2012. The most significant factor impacting the decrease was $5.3 million of bargain purchase gain on the acquisition of Herald included in other non-interest income for the six months ended June 30, 2012. Other non-interest income also included rental income from equipment under operating lease in 2013. For the quarter and six months ended June 30, 2013 other non-interest income included $1.4 million and $2.4 million, respectively, of rental income from equipment under operating lease. There was no income from equipment under operating lease during the same periods in 2012. Lastly, the dissolution of BUIS in May 2013 resulted in a decrease of approximately $1.0 million in investment services revenue for the three and six months ended June 30, 2013 as compared to the same periods in 2012.

Non-Interest Expense

The Company reported non-interest expense of $78.3 million and $158.9 million, respectively, for the three and six months ended June 30, 2013 as compared with $83.0 million and $167.1 million for the three and six months ended June 30, 2012. The following table presents the components of non-interest expense for the periods indicated (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	**2012**	**2013**	**2012**
Employee compensation and benefits	$ 43,027	$ 43,951	$ 86,102	$ 90,576
Occupancy and equipment	15,381	13,229	30,423	25,051
Impairment of other real estate owned	419	3,048	1,699	6,595
Gain on sale of other real estate owned	(6,091)	(1,490)	(7,122)	(89)
Other real estate owned expense	1,262	1,161	2,130	3,437
Foreclosure expense	1,994	3,892	2,499	6,611
Deposit insurance expense	1,724	1,946	3,661	3,096
Professional fees	6,959	3,953	12,381	7,602
Telecommunications and data processing	3,484	3,121	6,852	6,351
Other non-interest expense	10,188	10,220	20,231	17,919
	$ 78,347	$ 83,031	$ 158,856	$ 167,149

Employee compensation and benefits

Employee compensation and benefits, as is typical for financial institutions, represents the single largest component of recurring non-interest expense. Employee compensation and benefits for the three and six months ended June 30, 2013 as compared to the three and six months ended June 30, 2012 reflected decreases of $3.4 million and $9.8 million, respectively, in equity-based compensation resulting primarily from the vesting in 2012 of instruments issued in conjunction with the Company s initial public offering of common stock in 2011. These decreases were partially offset by increased compensation costs related to the Company s growth and expansion.

Occupancy and equipment

Occupancy and equipment expense increased to $15.4 million and $30.4 million, respectively, for the three and six months ended June 30, 2013 from $13.2 million and $25.1 million for the quarter and six months ended June 30, 2012 due primarily to the expansion and refurbishment of our branch network in both New York and Florida as well as technology enhancements.

OREO and foreclosure related components of non-interest expense

During the three and six months ended June 30, 2013 and 2012, all of the gains or losses recognized on OREO properties related to properties covered by the Loss Sharing Agreements. Therefore, any gains or losses from sale or impairment of OREO were substantially offset by gains or losses related to indemnification by the FDIC recognized in non-interest income. Generally, OREO and foreclosure related expenses incurred on covered assets are also reimbursed under the terms of the Loss Sharing Agreements.

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Impairment of OREO declined by $2.6 million to $0.4 million for the three months ended June 30, 2013 from $3.0 million for the three months ended June 30, 2012, and by $4.9 million to $1.7 million for the six months ended June 30, 2013 from $6.6 million for the six months ended June 30, 2012. Net gains on the sale of OREO totaled $6.1 million and $7.1 million for the three and six months ended June 30, 2013, respectively, as compared to $1.5 million and $0.1 million for the three and six months ended June 30, 2012, respectively, representing improvements of $4.6 million and $7.0 million from the respective periods in 2012. The improvement in results reflected improvements in real estate markets.

The following tables summarize OREO sale activity for the periods indicated (dollars in thousands):

	Three Months Ended June 30,					
	2013			2012		
	Units sold	Percent of Total Units	Total Gain	Units sold	Percent of Total Units	Total Gain
Residential OREO sales	191	91.8%	$ 2,622	351	97.0%	$ 979
Commercial OREO sales	17	8.2%	3,469	11	3.0%	511
	208	100.0%	$ 6,091	362	100.0%	$ 1,490

Six Months Ended June 30,

[redacted]						
Residential OREO sales	369	94.1%	$ 3,900	794	98.1%	$ (442)
Commercial OREO sales	23	5.9%	3,222	15	1.9%	531
	392	100.0%	$ 7,122	809	100.0%	$ 89

Three Months Ended June 30,

[redacted]						
Residential OREO sales:						
Units sold at a gain	115	60.2%	$ 31	172	49.0%	$ 25
Units sold at a loss	76	39.8%	$ (13)	179	51.0%	$ (19)
	191	100.0%	$ 14	351	100.0%	$ 3

Six Months Ended June 30,

[redacted]						
Residential OREO sales:						
Units sold at a gain	217	58.8%	$ 28	362	45.6%	$ 20
Units sold at a loss	152	41.2%	$ (14)	432	54.4%	$ (18)
	369	100.0%	$ 11	794	100.0%	$ (1)

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In total, foreclosure and OREO related expenses decreased by $1.8 million and $5.4 million, respectively, for the three and six months ended June 30, 2013 as compared to the three and six months ended June 30, 2012. These declines were primarily attributable to decreases in the levels of residential foreclosure activity and OREO inventory. At June 30, 2013 there were 640 residential units in the foreclosure pipeline and 229 residential units in OREO as compared to 1,824 residential units in the foreclosure pipeline and 577 residential units in OREO at June 30, 2012.

Loans are deemed eligible for foreclosure referral based on state specific guidelines, which is generally at 90-120 days delinquency. Prior to referral, extensive reviews are performed to ensure that all collection and loss mitigation efforts have been exhausted.

Other components of non-interest expense

Professional fees increased by $3.0 million and $4.8 million for the three and six months ended June 30, 2013 as compared to the three and six months ended June 30, 2012 primarily due to professional fees incurred in conjunction with regulatory compliance projects in the six months ended June 30, 2013. This was offset in part by legal and professional fees incurred in conjunction with the acquisition of Herald in the six months ended June 30, 2012.

The primary components of other non-interest expense are advertising and promotion, the cost of regulatory examinations, insurance, travel and general office expense.

We expect compensation and benefits costs, occupancy costs and general operating expenses to increase through the remainder of 2013 as the full impact of expansion into the New York market is reflected.

Income Taxes

The provision for income taxes for the three and six months ended June 30, 2013 was $32.9 million and $63.8 million, respectively, as compared with $32.8 million and $63.8 million, respectively, for the three and six months ended June 30, 2012.

The Company s effective income tax rate of 37.9% and 38.4%, respectively, for the three and six months ended June 30, 2013 differed from the statutory federal income tax rate of 35% primarily due to the impact of state income taxes. For the three and six months ended June 30, 2012 the effective income tax rate of 40.1% and 39.2% differed from the statutory federal income tax rate primarily due to the impact of state income taxes and non-deductible equity based compensation expense. In addition, the effective tax rate for the six months ended June 30, 2012 was impacted by a nontaxable gain on the acquisition of Herald.

Analysis of Financial Condition

Average interest-earning assets increased $1.1 billion to $10.7 billion for the six months ended June 30, 2013 from $9.6 billion for the six months ended June 30, 2012. This increase was driven by a $1.3 billion increase in the average balance of outstanding loans. The increase in average loans reflected growth of $1.8 billion in average new loans outstanding, partially offset by a $550 million decrease in the average balance of loans acquired in the FSB Acquisition. Average non-interest earning assets declined by $341 million. The most significant component of this decline was the decrease in the FDIC indemnification asset from claims paid. Growth of the new loan portfolio, resolution of covered loans and declines in the amount of the FDIC indemnification asset are trends that are expected to continue although the rate of decline in covered loans and the indemnification asset is expected to moderate.

Average interest bearing liabilities increased by $131 million to $9.3 billion for the six months ended June 30, 2013 from $9.2 billion for the six months ended June 30, 2012, due primarily to an increase of $433 million in average interest-bearing deposits, partially offset by a $292 million decrease in average FHLB advances. Average non-interest bearing deposits increased by $444 million.

Average stockholders equity increased by $220 million, due largely to the retention of earnings.

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Investment Securities Available for Sale

The following tables show the breakdown of covered and non-covered securities in the Company s investment portfolio at the dates indicated (in thousands):

	June 30, 2013									
	Covered Securities				Non-Covered Securities				Total	
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Fair Value
U.S. Government agency and sponsored enterprise residential mortgage-backed securities	$	$	$	$	$ 1,622,608	$ 42,163	$ (7,128)	$ 1,657,643	$ 1,622,608	$ 1,657,643
U.S. Government agency and sponsored enterprise commercial mortgage-backed securities					27,448	131	(206)	27,373	27,448	27,373
Resecuritized real estate mortgage investment conduits (Re-Remics)					482,344	6,092	(719)	487,717	482,344	487,717
Private label residential mortgage-backed securities and CMOs	131,644	55,885	(62)	187,467	171,011	1,310	(2,325)	169,996	302,655	357,463
Private label commercial mortgage-backed securities					568,326	7,842	(12,757)	563,411	568,326	563,411
Collateralized loan obligations					373,743	1,080	(175)	374,648	373,743	374,648
Non-mortgage asset-backed securities					159,525	5,969	(1)	165,493	159,525	165,493
Mutual funds and preferred stocks	15,419	4,131	(111)	19,439	125,157	5,279	(762)	129,674	140,576	149,113
State and municipal obligations					23,836	163	(48)	23,951	23,836	23,951
Small Business Administration securities					317,995	13,935		331,930	317,995	331,930
Other debt securities	3,511	4,030		7,541					3,511	7,541
	$ 150,574	$ 64,046	$ (173)	$ 214,447	$ 3,871,993	$ 83,964	$ (24,121)	$ 3,931,836	$ 4,022,567	$ 4,146,283

	December 31, 2012									
	Covered Securities				Non-Covered Securities				Total	
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Fair Value
U.S. Treasury and Government agency securities										