WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORP
Form 5
February 12, 2014

FORM 5

OMB APPROVAL

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Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).
Form 3 Holdings Reported
Form 4 Transactions Reported

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

ANNUAL STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

1. Name and Address of Reporting Person *
Seitz David M.

(Last) (First) (Middle)

1001 AIR BRAKE AVENUE

(Street)

WILMERDING, PA 15148

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORP [WAB]

3. Statement for Issuer's Fiscal Year Ended (Month/Day/Year)
12/31/2013

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

_____ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
VP,Sr. Counsel/Asst. Secretary

6. Individual or Joint/Group Reporting

(check applicable line)

_X_ Form Filed by One Reporting Person
___ Form Filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)	4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5) Amount	(A) or (D)	Price	5. Amount of Securities Beneficially Owned at end of Issuer's Fiscal Year (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
Common Stock - Direct	06/25/2013	Â	G	25	D	$ 0 (1)	27,367 (2)	D	Â

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 2270 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)	5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. of D Se Be O Er Is Fi (I
					(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares		

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
Seitz David M. 1001 AIR BRAKE AVENUE WILMERDING,Â PAÂ 15148	Â	Â	Â VP,Sr. Counsel/Asst. Secretary	Â

Signatures

David M. Seitz	02/12/2014
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, see Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Fair Market Value on June 25, 2013 was $50.24 per share.

(2) On June 11, 2013, Wabtec Corporation (WAB) effected a 2-for-1 stock split in the form of a 100% stock dividend to shareholders of record on June 3, 2013.

Note: File three copies of this Form, one of which must be manually signed. If space provided is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. 0pt;">
Other liabilities

—

(104
)

$
3,578,478

$
37,798

$
(97,340
)

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	December 31, 2014							
	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	0.8	$225,000	Other liabilities	$—	$(5,741)
Pay-fixed interest rate swaps	Variability of interest cash flows on variable rate borrowings	1.61%	3-Month Libor	2.8	1,505,000	Other assets / Other liabilities	4,083	(19,639)
Pay-fixed forward-starting interest rate swaps	Variability of interest cash flows on variable rate borrowings	3.43%	3-Month Libor	12.5	300,000	Other liabilities	—	(18,115)
Derivatives not designated as hedges:								
Pay-fixed interest rate swaps and caps		4.34%	Indexed to 1-month Libor	6.3	537,368	Other assets / Other liabilities	60	(25,622)
Pay-variable interest rate swaps and caps		Indexed to 1-month Libor	4.34%	6.3	537,368	Other assets / Other liabilities	25,622	(60)
					$3,104,736		$29,765	$(69,177)

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 September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Amount of loss reclassified from AOCI into interest expense during the period (effective portion)	$(6,978)	$(6,729)	$(20,052)	$(19,936)
Amount of gain (loss) recognized in income during the period (ineffective portion)	$—	$—	$—	$—

During the nine months ended September 30, 2015 and 2014, 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 September 30, 2015, the amount expected to be reclassified from AOCI into income during the next twelve months was $18.4 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. The Company does not offset assets and liabilities under these agreements for financial reporting purposes. 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 at the dates indicated (in thousands):

	September 30, 2015					
				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	$104	$ —	$104	$(104)	$—	$—
Derivative liabilities	(97,236)	—	(97,236)	104	97,121	(11)
	$(97,132)	$ —	$(97,132)	$—	$97,121	$(11)

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	December 31, 2014					
				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	$4,143	$ —	$4,143	$(4,143)	$—	$—
Derivative liabilities	(69,117)	—	(69,117)	4,143	64,974	—
	$(64,974)	$ —	$(64,974)	$—	$64,974	$—

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 September 30, 2015, the Company has pledged investment securities available for sale with a carrying amount of $67 million and cash on deposit of $52 million as collateral for interest rate swaps in a liability position. No financial collateral was pledged by counterparties to the Company for interest rate swaps in an asset position. The amount of collateral required to be posted by the Company varies based on the settlement value of outstanding swaps and in some cases may include initial margin requirements.

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 75 days. These commitments are considered derivative instruments. The notional amount of outstanding mortgage loan commitment derivatives was $3 million at September 30, 2015 and December 31, 2014. 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 $2 million and $1 million at September 30, 2015 and December 31, 2014, respectively. The fair value of loan commitment and forward sale commitment derivatives was nominal at September 30, 2015 and December 31, 2014.

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Note 8 Stockholders' Equity
Accumulated Other Comprehensive Income
Changes in AOCI are summarized as follows for the periods indicated (in thousands):

	Three Months Ended September 30,					
	2015			2014		
	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 loss arising during the period	$(8,727)	$3,446	$(5,281)	$(24,263)	$ 9,365	$(14,898)
Amounts reclassified to gain on investment securities available for sale, net	(2,343)	926	(1,417)	(795)	307	(488)
Net change in unrealized gains on investment securities available for sale	(11,070)	4,372	(6,698)	(25,058)	9,672	(15,386)
Unrealized losses on derivative instruments:						
Net unrealized holding gain (loss) arising during the period	(29,983)	11,844	(18,139)	636	(245)	391
Amounts reclassified to interest expense on deposits	1,449	(572)	877	1,427	(550)	877
Amounts reclassified to interest expense on borrowings	5,529	(2,184)	3,345	5,302	(2,045)	3,257
Net change in unrealized losses on derivative instruments	(23,005)	9,088	(13,917)	7,365	(2,840)	4,525
Other comprehensive loss	$(34,075)	$13,460	$(20,615)	$(17,693)	$ 6,832	$(10,861)

	Nine Months Ended September 30,					
	2015			2014		
	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	$(4,352)	$916	$(3,436)	$10,624	$ (4,089)	$6,535
Amounts reclassified to gain on investment securities available for sale, net	(5,493)	2,170	(3,323)	(1,156)	446	(710)
Net change in unrealized gains on investment securities available for sale	(9,845)	3,086	(6,759)	9,468	(3,643)	5,825
Unrealized losses on derivative instruments:						
Net unrealized holding loss arising during the period	(35,534)	14,328	(21,206)	(19,738)	7,614	(12,124)
Amounts reclassified to interest expense on deposits	4,302	(1,699)	2,603	4,234	(1,633)	2,601
Amounts reclassified to interest expense on borrowings	15,750	(6,221)	9,529	15,702	(6,057)	9,645
Net change in unrealized losses on derivative instruments	(15,482)	6,408	(9,074)	198	(76)	122
Other comprehensive income (loss)	$(25,327)	$9,494	$(15,833)	$9,666	$ (3,719)	$5,947

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

	Unrealized Gains on Investment Securities Available for Sale	Unrealized Losses on Derivative Instruments	Total
Balance at December 31, 2014	$ 68,322	$ (21,970)	$46,352
Other comprehensive loss	(6,759)	(9,074)	(15,833)
Balance at September 30, 2015	$ 61,563	$ (31,044)	$30,519
Balance at December 31, 2013	$ 68,753	$ (11,273)	$57,480
Other comprehensive income	5,825	122	5,947
Balance at September 30, 2014	$ 74,578	$ (11,151)	$63,427

Note 9 Equity Based Compensation

During the nine months ended September 30, 2015, the Company granted 621,283 unvested share awards under the BankUnited, Inc. 2010 Omnibus Equity Incentive Plan (the "2010 Plan") and 41,645 unvested share awards under the BankUnited, Inc. 2014 Omnibus Equity Incentive Plan (the "2014 Plan"). All of the shares vest in equal annual installments over a period of three years from the date of grant. The shares granted were valued at the closing price of the Company's common stock on the date of grant, ranging from $31.35 to $36.50 for a weighted average grant date fair value of $32.04 and an aggregate fair value of $21.2 million. The total unrecognized compensation cost of $24.2 million for all unvested share awards outstanding at September 30, 2015 will be recognized over a weighted average remaining period of 2.0 years.

During the nine months ended September 30, 2014, the Company granted 692,029 unvested share awards under the 2010 Plan. All of the shares vest in equal annual installments over a period of three years from the date of grant. The shares granted were valued at the closing price of the Company's common stock on the date of grant, ranging from $30.34 to $34.04 for a weighted average grant date fair value of $31.72 and an aggregate fair value of $22.0 million.

Note 10 Fair Value Measurements

Assets and liabilities measured at fair value on a recurring basis

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

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

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

Servicing rights—Servicing rights for SBA loans are valued using a discounted cash flow methodology incorporating contractually specified servicing fees and market based assumptions about prepayments, default rates and costs of servicing. Prepayment and default assumptions are based on historical industry data for loans with similar characteristics. Assumptions about costs of servicing are based on market convention. Discount rates are based on rates of return implied by observed trades of underlying loans in the secondary market. The significant inputs to the valuation model are based on observable market data, therefore, these fair value measurements are classified within level 2 of the fair value hierarchy.

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

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

	September 30, 2015			
	Level 1	Level 2	Level 3	Total
Investment securities available for sale:				
U.S. Treasury securities	$55,286	$—	$—	$55,286
U.S. Government agency and sponsored enterprise residential mortgage-backed securities	—	1,291,761	—	1,291,761
U.S. Government agency and sponsored enterprise commercial mortgage-backed securities	—	93,088	—	93,088
Re-Remics	—	112,734	—	112,734
Private label residential mortgage-backed securities and CMOs	—	396,805	147,738	544,543
Private label commercial mortgage-backed securities	—	1,107,954	—	1,107,954
Single family rental real estate-backed securities	—	572,292	—	572,292
Collateralized loan obligations	—	306,960	—	306,960
Non-mortgage asset-backed securities	—	59,234	—	59,234
Preferred stocks	84,220	856	—	85,076
State and municipal obligations	—	178,191	—	178,191
SBA securities	—	246,040	—	246,040
Other debt securities	—	3,580	4,707	8,287
Servicing rights	—	11,152	—	11,152
Derivative assets		37,798	13	37,811
Total assets at fair value	$139,506	$4,418,445	$152,458	$4,710,409
Derivative liabilities	$—	$97,340	$18	$97,358
Total liabilities at fair value	$—	$97,340	$18	$97,358

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	December 31, 2014			
	Level 1	Level 2	Level 3	Total
Investment securities available for sale:				
U.S. Treasury securities	$54,967	$—	$—	$54,967
U.S. Government agency and sponsored enterprise residential mortgage-backed securities	—	1,524,716	—	1,524,716
U.S. Government agency and sponsored enterprise commercial mortgage-backed securities	—	101,858	—	101,858
Re-Remics	—	183,272	—	183,272
Private label residential mortgage-backed securities and CMOs	—	235,902	168,077	403,979
Private label commercial mortgage-backed securities	—	1,161,485	—	1,161,485
Single family rental real estate-backed securities	—	443,017	—	443,017
Collateralized loan obligations	—	174,332	—	174,332
Non-mortgage asset-backed securities	—	100,068	—	100,068
Preferred stocks	104,754	688	—	105,442
State and municipal obligations	—	15,702	—	15,702
SBA securities	—	308,728	—	308,728
Other debt securities	—	3,210	4,918	8,128
Derivative assets	—	29,765	49	29,814
Total assets at fair value	$159,721	$4,282,743	$173,044	$4,615,508
Derivative liabilities	$—	$69,177	$1	$69,178
Total liabilities at fair value	$—	$69,177	$1	$69,178

There were no transfers of financial assets between levels of the fair value hierarchy during the nine months ended September 30, 2015 and 2014.

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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):

	Three Months Ended September 30,					
	2015			2014		
	Private Label Residential Mortgage-Backed Securities	Other Debt Securities	Derivative Assets (Liabilities), Net	Private Label Residential Mortgage-Backed Securities	Other Debt Securities	Derivative Assets, Net
Balance at beginning of period	$155,908	$4,793	$ 115	$180,921	$4,710	$ 47
Gains (losses) for the period included in:						
Net income	—	—	(120)	—	—	8
Other comprehensive income	(1,885)	(98)	—	(2,052)	202	—
Discount accretion	1,577	36	—	1,979	33	—
Purchases or additions	—	—	—	—	—	—
Sales	—	—	—	—	—	—
Settlements	(7,862)	(24)	—	(6,822)	(21)	—
Transfers into level 3	—	—	—	—	—	—
Transfers out of level 3	—	—	—	—	—	—
Balance at end of period	$147,738	$4,707	$ (5)	$174,026	$4,924	$ 55

	Nine Months Ended September 30,					
	2015			2014		
	Private Label Residential Mortgage-Backed Securities	Other Debt Securities	Derivative Assets (Liabilities), Net	Private Label Residential Mortgage-Backed Securities	Other Debt Securities	Derivative Assets, Net
Balance at beginning of period	$168,077	$4,918	$ 48	$199,408	$4,601	$ 32
Gains (losses) for the period included in:						
Net income	—	—	(53)	—	—	23
Other comprehensive income	(4,709)	(248)	—	(3,277)	257	—
Discount accretion	4,980	108	—	6,155	150	—
Purchases or additions	—	—	—	—	—	—
Sales	—	—	—	(7,787)	—	—
Settlements	(20,610)	(71)	—	(20,473)	(84)	—
Transfers into level 3	—	—	—	—	—	—
Transfers out of level 3	—	—	—	—	—	—
Balance at end of period	$147,738	$4,707	$ (5)	$174,026	$4,924	$ 55

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

Securities for which fair value measurements are categorized in level 3 of the fair value hierarchy at September 30, 2015 consisted of pooled trust preferred securities with a fair value of $5 million and private label residential mortgage-backed securities and CMOs with a fair value of $148 million. The trust preferred securities are not material to the Company’s financial statements. Private label residential mortgage-backed securities consisted of senior and mezzanine tranches collateralized by prime fixed rate and hybrid 1-4 single family residential mortgages originated before 2005, some of which contain option-arm features. Substantially all of these securities have variable rate coupons. Weighted average subordination levels at

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BANKUNITED, INC. AND SUBSIDIARIES
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September 30, 2015

September 30, 2015 were 15.9%, 12.2% and 1.6% for investment grade, non-investment grade and option-arm securities, respectively. There were $29 million of option-arm securities with a subordination level of zero at September 30, 2015.
The following table provides information about the valuation techniques and unobservable inputs used in the valuation of private label residential mortgage-backed securities and CMOs falling within level 3 of the fair value hierarchy as of September 30, 2015 (dollars in thousands):

	Fair Value at September 30, 2015	Valuation Technique	Unobservable Input	Range (Weighted Average)
Investment grade	$69,869	Discounted cash flow	Voluntary prepayment rate	3.65% - 10.46% (8.47%)
			Probability of default	0.03% - 8.36% (2.16%)
			Loss severity	0.00% - 25.84% (2.62%)
Non-investment grade	$47,423	Discounted cash flow	Voluntary prepayment rate	4.51% - 11.81% (7.42%)
			Probability of default	0.02% - 14.62% (2.79%)
			Loss severity	0.00% - 52.31% (3.06%)
Option-arm (non-investment grade)	$30,446	Discounted cash flow	Voluntary prepayment rate	2.81% - 3.02% (2.86%)
			Probability of default	2.59% - 7.70% (6.40%)
			Loss severity	19.00% - 21.71% (19.69%)

The significant unobservable inputs impacting the fair value measurement of private label residential mortgage-backed securities and CMOs include voluntary prepayment rates, probability of default and loss severity given default. Generally, increases in probability of default or loss severity would result in a lower fair value measurement. Alternatively, decreases in probability of default or loss severity would result in a higher fair value measurement. For securities with less favorable credit characteristics, decreases in voluntary prepayment speeds may be interpreted as a deterioration in the overall credit quality of the underlying collateral and as such, lead to lower fair value measurements. The fair value measurements of those securities with higher levels of subordination will be less sensitive to changes in these unobservable inputs, 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.
Assets and liabilities measured at fair value on a non-recurring basis
Following is a description of the methodologies used to estimate the fair values of assets and liabilities that may be measured at fair value on a non-recurring basis, and the level within the fair value hierarchy in which those measurements are typically classified.
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.

Residential mortgage servicing rights - Fair value is estimated using a discounted cash flow technique that incorporates market based assumptions including estimated prepayment speeds, contractual servicing fees, cost to service, discount rates, escrow account earnings, ancillary income, and estimated defaults. No adjustments to fair value were recognized during the nine months ended September 30, 2014.

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

	September 30, 2015				Gains (Losses) from Fair Value Changes	
	Level 1	Level 2	Level 3	Total	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2015
OREO	$—	$—	$6,899	$6,899	(146)	$(538)
Impaired loans	$—	$—	$59,564	$59,564	(3,871)	$(16,995)
Residential mortgage servicing rights	$—	$8,622	$—	$8,622	(20)	$(20)

	September 30, 2014				Gains (Losses) from Fair Value Changes	
	Level 1	Level 2	Level 3	Total	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2014
OREO	$—	$—	$13,026	$13,026	$(699)	$(2,129)
Impaired loans	$—	$—	$13,247	$13,247	$1,614	$2,751

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):

		September 30, 2015		December 31, 2014	
	Level	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets:					
Cash and cash equivalents	1	$276,281	$276,281	$187,517	$187,517
Investment securities available for sale	1/2/3	4,661,446	4,661,446	4,585,694	4,585,694
Investment securities held to maturity	3	10,000	10,000	10,000	10,000
Non-marketable equity securities	2	217,945	217,945	191,674	191,674
Loans held for sale	2	50,791	53,633	1,399	1,445
Loans:					
Covered	3	850,632	1,513,247	1,039,672	1,763,132
Non-covered	3	14,462,468	14,758,109	11,279,555	11,443,408
FDIC Indemnification asset	3	798,223	440,450	974,704	595,847
Accrued interest receivable	2	43,828	43,828	32,636	32,636
Derivative assets	2/3	37,811	37,811	29,814	29,814
Liabilities:					
Demand, savings and money market deposits	2	$11,346,796	$11,346,796	$9,509,830	$9,509,830
Time deposits	2	4,551,096	4,571,823	4,001,925	4,017,476
FHLB advances and other borrowings	2	4,093,816	4,099,558	3,318,559	3,320,338
Accrued interest payable	2	2,829	2,829	1,997	1,997
Derivative liabilities	2/3	97,358	97,358	69,178	69,178

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

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

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Investment securities held to maturity

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

Non-marketable equity securities

Non-marketable equity securities include FHLB and FRB stock. There is no market for these securities, which can be liquidated only by redemption by the issuer. These securities are 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 residential mortgage loans originated and held for sale is based on pricing currently available to the Company in the secondary market.

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

ACI and non-ACI loans

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

New loans

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

FDIC indemnification asset

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

Deposits

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

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.

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Note 11 Commitments and Contingencies

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

Unfunded commitments under lines of credit

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

Commercial and standby letters of credit

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

Total lending related commitments outstanding at September 30, 2015 were as follows (in thousands):

	Covered	Non-Covered	Total
Commitments to fund loans	$—	$ 666,356	$ 666,356
Commitments to purchase loans	—	129,215	129,215
Unfunded commitments under lines of credit	19,285	1,471,154	1,490,439
Commercial and standby letters of credit	—	59,533	59,533
	$ 19,285	$ 2,326,258	$ 2,345,543

Legal Proceedings

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

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Note 12 Acquisition Activity

On May 1, 2015, BankUnited completed the acquisition of the Small Business Finance Unit ("SBF") of CertusHoldings, Inc. in an asset purchase transaction for a cash purchase price of $278 million. SBF's primary business activity is to originate loans under programs administered by the SBA and to a lesser extent, the USDA. The SBF acquisition will allow BankUnited to expand its current small business lending platform on a national basis. BankUnited acquired the SBF loan portfolio, as well as substantially all of SBF's operating assets, and assumed certain of its operating liabilities. The acquisition of SBF was determined to be a business combination and was accounted for using the acquisition method of accounting; accordingly, the assets acquired and liabilities assumed were recorded at their estimated fair values at the acquisition date. The results of operations of SBF have been included in the Company's consolidated financial statements from the date of acquisition, and are not material.

The following table summarizes the estimated fair values of assets acquired and liabilities assumed (in thousands):

Assets:	
Loans held for investment	$173,809
Loans held for sale	82,143
Servicing rights	10,418
Other assets	4,397
Total assets	270,767
Total liabilities	3,620
Estimated fair value of net assets acquired	267,147
Consideration issued	277,553
Excess of consideration issued over fair value of net assets acquired	$10,406

Goodwill of $10.4 million was primarily attributable to the assembled workforce and market share and is expected to be deductible for income tax purposes.

Valuation methodologies used to estimate the fair values of significant assets acquired are summarized as follows:

- Loans were valued using a discounted cash flow technique incorporating market based prepayment, probability of default, loss severity given default, recovery lag and appropriately risk adjusted discount rate assumptions.
- Servicing rights were valued using a discounted cash flow methodology incorporating contractually specified servicing fees, prepayment factors and default rates based primarily on historical industry data, market convention assumptions about the cost of servicing and discount rates commensurate with observed secondary market activity.

The UPB of acquired loans was $249 million, of which approximately $13 million was not expected to be collected based on probability of default and loss severity given default assumptions applied in estimating fair value.

Pro-forma financial information is not required to be presented due to the immateriality of this transaction to the Company's consolidated financial position and results of operations.

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

The following discussion and analysis is intended to focus on significant changes in the financial condition and results of operations of the Company during the three and nine months ended September 30, 2015 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 2014 Annual Report on Form 10-K for the year ended December 31, 2014 (the "2014 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,” “estin 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 2014 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

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

Performance highlights include:

- Net income for the quarter ended September 30, 2015 was $102.3 million or $0.95 per diluted share as compared to $53.6 million or $0.51 per diluted share for the quarter ended September 30, 2014. For the nine months ended September 30, 2015, net income was $195.4 million or $1.83 per diluted share compared to $157.4 million or $1.50 per diluted share for the nine months ended September 30, 2014. Earnings for the nine months ended September 30, 2015 generated a return on average stockholders' equity of 12.21% and a return on average assets of 1.26%. Excluding the impact of a discrete income tax benefit and related professional fees, return on average stockholders' equity and return on average assets were 0.95% and 9.18%, respectively, for the nine months ended September 30, 2015.
- Earnings for the quarter ended September 30, 2015 benefited from a discrete income tax benefit of $49.3 million related to the Company’s ability to claim additional tax basis in certain assets acquired in the FSB Acquisition. Excluding the impact of this discrete income tax benefit and related professional fees of $1.3 million, diluted earnings per share for the quarter and nine months ended September 30, 2015 were $0.50 and $1.37, respectively.
- New loans and leases, including equipment under operating lease, grew by $1.2 billion during the third quarter of 2015. For the nine months ended September 30, 2015, new loans and leases increased by $3.3 billion, including $174 million of loans that were part of the SBF acquisition.
- Total deposits increased by $651 million for the quarter ended September 30, 2015 to $15.9 billion.
-

Net interest income increased by $15.7 million to $189.0 million for the quarter ended September 30, 2015 from $173.2 million for the quarter ended September 30, 2014. Interest income increased by $22.7 million primarily as a result of an increase in the average balance of loans outstanding, partially offset by a decline in the yield on loans. Interest expense increased by $7.0 million due primarily to an increase in average interest bearing liabilities.

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- The net interest margin, calculated on a tax-equivalent basis, was 3.88% for the quarter ended September 30, 2015 compared to 4.58% for the quarter ended September 30, 2014 and 3.95% for the immediately preceding quarter ended June 30, 2015. The net interest margin, calculated on a tax-equivalent basis, was 3.95% for the nine months ended September 30, 2015 compared to 4.75% for the nine months ended September 30, 2014. The net interest margin continues to be impacted by the origination of new loans at current market yields lower than those on loans acquired in the FSB Acquisition.
- Asset quality remained strong, with a ratio of non-performing, non-covered assets to total assets of 0.44% and a ratio of non-performing, non-covered loans to total non-covered loans of 0.66% at September 30, 2015. The ratio of non-performing assets to total assets was 0.52% and the ratio of non-performing loans to total loans was 0.67% at September 30, 2015.
- The Company’s capital ratios exceeded all regulatory “well capitalized” guidelines, with a Tier 1 leverage ratio of 9.7%, a Common Equity Tier 1 ("CET1") risk-based capital ratio of 13.5%, a Tier 1 risk-based capital ratio of 13.5% and a Total risk-based capital ratio of 14.3% at September 30, 2015.
- Book value and tangible book value per common share grew to $21.35 and $20.59, respectively, at September 30, 2015.

Results of Operations

Net Interest Income

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

The mix of interest earning assets is influenced by loan demand, market and competitive conditions in our primary lending markets and by management's continual assessment of the rate of return and relative risk associated with various classes of earning assets. The mix of interest bearing liabilities is influenced by management's assessment of the 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 the net interest margin and the interest rate spread is expected to continue to decline as ACI loans comprise a declining percentage of total loans. The proportion of total loans represented by ACI loans is declining as the ACI loans are resolved and new loans are added to the portfolio. ACI loans represented 5.3% and 8.0%, of total loans, including premiums, discounts and deferred fees and costs, at September 30, 2015 and December 31, 2014, respectively. As this trend continues, we expect our net interest margin and interest rate spread to continue to decrease, although at a declining rate.

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 and expected cash flows remain related to loans in the pool. Once the carrying value of a pool is reduced to zero, any future proceeds from the remaining loans, representing further realization of accretable yield, are recognized as interest income upon receipt. The carrying value of one pool has been reduced to zero. The UPB of loans remaining in this pool was insignificant at September 30, 2015.

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

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

	Three Months Ended September 30,									
	2015					2014				
	Average Balance		Interest[1]	Yield/ Rate[1] [2]		Average Balance		Interest[1]	Yield/ Rate[1] [2]	
Assets:										
Interest earning assets:										
Loans	$14,682,712		$194,286	5.27	%	$10,769,828		$174,504	6.46	%
Investment securities [3]	4,832,109		31,970	2.65	%	4,193,309		28,556	2.72	%
Other interest earning assets	460,964		2,715	2.34	%	473,419		1,815	1.52	%
Total interest earning assets	19,975,785		228,971	4.57	%	15,436,556		204,875	5.29	%
Allowance for loan and lease losses	(110,233	)				(78,219	)			
Non-interest earning assets	1,998,023					1,886,180				
Total assets	$21,863,575					$17,244,517				
Liabilities and Stockholders' Equity:										
Interest bearing liabilities:										
Interest bearing demand deposits	$1,352,069		1,547	0.45	%	$791,648		815	0.41	%
Savings and money market deposits	7,074,730		10,013	0.56	%	5,169,380		6,929	0.53	%
Time deposits	4,396,640		12,399	1.12	%	3,934,361		11,688	1.18	%
Total interest bearing deposits	12,823,439		23,959	0.74	%	9,895,389		19,432	0.78	%
FHLB advances and other borrowings	3,892,933		10,988	1.12	%	2,620,323		8,541	1.29	%
Total interest bearing liabilities	16,716,372		34,947	0.83	%	12,515,712		27,973	0.89	%
Non-interest bearing demand deposits	2,678,429					2,447,150				
Other non-interest bearing liabilities	290,758					257,053				
Total liabilities	19,685,559					15,219,915				
Stockholders' equity	2,178,016					2,024,602				
Total liabilities and stockholders' equity	$21,863,575					$17,244,517				
Net interest income			$194,024					$176,902		
Interest rate spread				3.74	%				4.40	%
Net interest margin				3.88	%				4.58	%

(1) On a tax-equivalent basis where applicable
(2) Annualized
(3) At fair value except for securities held to maturity

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Explanation of Responses:

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	Nine Months Ended September 30,								
	2015				2014				
	Average Balance	Interest[1]	Yield/ Rate[1] [2]		Average Balance	Interest[1]	Yield/ Rate[1] [2]		
Assets:									
Interest earning assets:									
Loans	$13,721,518	$556,919	5.42	%	$10,188,110	$507,309	6.65	%	
Investment securities [3]	4,631,331	88,084	2.54	%	3,844,005	80,415	2.79	%	
Other interest earning assets	466,947	7,338	2.10	%	439,090	5,576	1.70	%	
Total interest earning assets	18,819,796	652,341	4.63	%	14,471,205	593,300	5.47	%	
Allowance for loan and lease losses	(104,210)				(74,478)				
Non-interest earning assets	1,969,880				1,929,339				
Total assets	$20,685,466				$16,326,066				
Liabilities and Stockholders' Equity:									
Interest bearing liabilities:									
Interest bearing demand deposits	$1,129,288	3,880	0.46	%	$731,712	2,270	0.41	%	
Savings and money market deposits	6,601,070	26,700	0.54	%	4,915,728	18,312	0.50	%	
Time deposits	4,210,793	35,238	1.12	%	3,643,425	32,412	1.19	%	
Total interest bearing deposits	11,941,151	65,818	0.74	%	9,290,865	52,994	0.76	%	
FHLB advances and other borrowings	3,626,804	29,939	1.10	%	2,545,148	24,932	1.31	%	
Total interest bearing liabilities	15,567,955	95,757	0.82	%	11,836,013	77,926	0.88	%	
Non-interest bearing demand deposits	2,698,570				2,270,947				
Other non-interest bearing liabilities	280,208				219,794				
Total liabilities	18,546,733				14,326,754				
Stockholders' equity	2,138,733				1,999,312				
Total liabilities and stockholders' equity	$20,685,466				$16,326,066				
Net interest income		$556,584				$515,374			
Interest rate spread			3.81	%			4.59	%	
Net interest margin			3.95	%			4.75	%	

(1) On a tax-equivalent basis where applicable
(2) Annualized
(3) At fair value except for securities held to maturity

Three months ended September 30, 2015 compared to three months ended September 30, 2014

Net interest income, calculated on a tax-equivalent basis, was $194.0 million for the three months ended September 30, 2015 compared to $176.9 million for the three months ended September 30, 2014, an increase of $17.1 million. The increase in net interest income was comprised of an increase in interest income of $24.1 million, offset by an increase in interest expense of $7.0 million.

The increase in tax-equivalent interest income resulted primarily from a $19.8 million increase in interest income from loans.

Increased interest income from loans was attributable to a $3.9 billion increase in the average balance outstanding partially offset by a 1.19% decrease in the tax-equivalent yield to 5.27% for the three months ended September 30, 2015 from 6.46% for the three months ended September 30, 2014. Offsetting factors contributing to the overall decline in the yield on loans included:

- New loans originated at lower market rates of interest comprised a greater percentage of the portfolio for the three months ended September 30, 2015 than for the comparable period in 2014. New loans represented 93.4% of the average balance of loans outstanding for the three months ended September 30, 2015 compared to 88.5% for the three months ended September 30, 2014. We expect the impact of growth of the new loan portfolio to lead to further declines in the overall yield on loans.

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- The tax-equivalent yield on new loans declined to 3.48% for the three months ended September 30, 2015 from 3.58% for the three months ended September 30, 2014.
- Interest income on loans acquired in the FSB Acquisition totaled $74.1 million and $88.6 million for the three months ended September 30, 2015 and 2014, respectively. The tax-equivalent yield on those loans increased to 30.75% for the three months ended September 30, 2015 from 28.68% for the three months ended September 30, 2014. The increase in the yield on loans acquired in the FSB Acquisition resulted from improvements in the timing and amount of expected cash flows and corresponding transfers from non-accretable difference to accretable yield for ACI loans, offset in part by decreases in the amount of interest income recognized in connection with the sale of ACI residential loans from the pool with a carrying value of zero. Interest income on loans included $12.4 million in proceeds from sales of loans from the zero carrying value pool for the three months ended September 30, 2014. No loans were sold from the zero carrying value pool in the three months ended September 30, 2015.

The average balance of investment securities increased by $639 million for the three months ended September 30, 2015 from the comparable period in 2014 while the tax-equivalent yield declined to 2.65% for three months ended September 30, 2015 from 2.72% for three months ended September 30, 2014.

The components of the increase in interest expense for the three months ended September 30, 2015 as compared to the three months ended September 30, 2014 were a $4.5 million increase in interest expense on deposits and a $2.4 million increase in interest expense on FHLB advances and other borrowings. The most significant factor contributing to the increase in interest expense on deposits was an increase of $2.9 billion in average interest bearing deposits.

The increase in interest expense on FHLB advances and other borrowings was driven by an increase in the average balance of $1.3 billion, offset by a decrease in the average rate paid on these borrowings. The average rate paid on FHLB advances and other borrowings declined by 0.17% to 1.12% for the three months ended September 30, 2015 from 1.29% for the three months ended September 30, 2014. This decline reflected the impact of the maturity of higher rate advances and the addition of new advances at lower market interest rates.

The net interest margin, calculated on a tax-equivalent basis, for the three months ended September 30, 2015 was 3.88% as compared to 4.58% for the three months ended September 30, 2014. The interest rate spread decreased to 3.74% for the three months ended September 30, 2015 from 4.40% for the three months ended September 30, 2014. The declines in net interest margin and interest rate spread resulted primarily from lower yields on loans and investment securities partly offset by a lower cost of deposits and borrowings, as discussed above. We expect the net interest margin and interest rate spread to continue to decline as the composition of the loan portfolio shifts away from higher yielding loans acquired in the FSB Acquisition into new loans originated at lower current market rates of interest.

Nine months ended September 30, 2015 compared to nine months ended September 30, 2014

Net interest income, calculated on a tax-equivalent basis, was $556.6 million for the nine months ended September 30, 2015 compared to $515.4 million for the nine months ended September 30, 2014, an increase of $41.2 million. The increase in net interest income was comprised of an increase in interest income of $59.0 million, offset by an increase in interest expense of $17.8 million.

The increase in tax-equivalent interest income resulted primarily from a $49.6 million increase in interest income from loans and a $7.7 million increase in interest income from investment securities.

Increased interest income from loans was attributable to a $3.5 billion increase in the average balance outstanding partially offset by a 1.23% decrease in the tax-equivalent yield to 5.42% for the nine months ended September 30, 2015 from 6.65% for the nine months ended September 30, 2014. Offsetting factors contributing to the overall decline in the yield on loans were consistent with those indicated for the three month periods above.

New loans represented 92.4% of the average balance of loans outstanding for the nine months ended September 30, 2015 compared to 86.9% for the nine months ended September 30, 2014. The tax-equivalent yield on new loans declined to 3.49% for the nine months ended September 30, 2015 from 3.58% for the nine months ended September 30, 2014.

Interest income on loans acquired in the FSB Acquisition totaled $222.6 million and $269.7 million for the nine months ended September 30, 2015 and 2014, respectively. The tax-equivalent yield on those loans increased to 28.69% for the nine months ended September 30, 2015 from 27.07% for the nine months ended September 30, 2014. Interest income on loans included $27.9 million in proceeds from sales of loans from the zero carrying value pool for the nine months ended September 30, 2014. No loans were sold from the zero carrying value pool in the nine months ended September 30, 2015.

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The average balance of investment securities increased by $787 million for the nine months ended September 30, 2015 from the nine months ended September 30, 2014 while the tax-equivalent yield declined to 2.54% for the nine months ended September 30, 2015 from 2.79% for nine months ended September 30, 2014. The decline in tax-equivalent yield reflects (i) the impact of the addition of new, relatively short duration securities at current market yields while securities purchased in a higher interest rate environment continue to amortize and (ii) adjustments resulting from changes in prepayment speeds for certain securities.

The components of the increase in interest expense for the nine months ended September 30, 2015 as compared to the nine months ended September 30, 2014 were a $12.8 million increase in interest expense on deposits and a $5.0 million increase in interest expense on FHLB advances and other borrowings. The most significant factor contributing to the increase in interest expense on deposits was an increase of $2.7 billion in average interest bearing deposits. The increase in interest expense on FHLB advances and other borrowings was driven by an increase in the average balance of $1.1 billion, offset by a decrease in the average rate paid on these borrowings. The average rate paid on FHLB advances and other borrowings declined by 0.21% to 1.10% for the nine months ended September 30, 2015 from 1.31% for the nine months ended September 30, 2014.

The net interest margin, calculated on a tax-equivalent basis, for the nine months ended September 30, 2015 was 3.95% as compared to 4.75% for the nine months ended September 30, 2014. The interest rate spread decreased to 3.81% for the nine months ended September 30, 2015 from 4.59% for the nine months ended September 30, 2014. The declines in net interest margin and interest rate spread resulted primarily from the same factors as for the three month periods discussed above.

Provision for Loan Losses

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

For the three months ended September 30, 2015 and 2014, we recorded provisions for loan losses of $16.7 million and $6.3 million, respectively, related to new loans. For the nine months ended September 30, 2015 and 2014, we recorded provisions for loan losses of $33.7 million and $20.2 million, respectively, related to new loans. The amount of the provision is impacted by loan growth, historical loss rates, the level of charge-offs and specific reserves for impaired loans, and management's evaluation of qualitative factors in the determination of general reserves. The provision for loan losses for the three and nine months ended September 30, 2015 was impacted by a specific reserve of $6.3 million related to one commercial relationship. See the section entitled "Analysis of the Allowance for Loan and Lease Losses" below for further discussion.

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

As discussed below in the section entitled "Non-interest income," the impact on our results of operations of any provision for (recovery of) loan losses on covered loans is significantly mitigated by the corresponding impact on the FDIC indemnification asset, recorded in non-interest income. For the three months ended September 30, 2015 and 2014, we recorded provisions for (recoveries of) losses on covered loans of $1.1 million and $(0.9) million, respectively. For the nine months ended September 30, 2015 and 2014, we recorded provisions for losses on covered loans of $0.7 million and $0.8 million, respectively.

Non-Interest Income

The Company reported non-interest income of $31.2 million and $14.5 million for the three months ended September 30, 2015 and 2014, respectively. Non-interest income was $73.0 million and $65.1 million for the nine months ended September 30, 2015 and 2014, respectively. Although the amounts are generally declining, a significant portion of our non-interest income relates to transactions in the covered assets, including the resolution of assets covered by our Loss Sharing Agreements with the FDIC and gains and losses on the covered assets. We have broken out the significant categories of non-

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interest income that relate to covered assets in the table below, to assist in the comparison of the amount and composition of our non-interest income with that of other financial institutions.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Income from resolution of covered assets, net	$12,364	$14,525	$41,261	$39,756
Net loss on FDIC indemnification	(15,988)	(16,958)	(53,024)	(39,758)
FDIC reimbursement of costs of resolution of covered assets	134	1,411	841	3,651
Gain on sale of covered loans, net	9,288	3,667	26,711	22,595
Mortgage insurance income and modification incentives	458	1,070	2,311	4,015
Non-interest income related to the covered assets	6,256	3,715	18,100	30,259
Service charges and fees	4,637	4,236	13,580	12,427
Gain on sale of non-covered loans	2,013	122	2,979	517
Gain on investment securities available for sale, net	2,343	795	5,493	1,156
Lease financing	12,673	4,122	25,954	12,685
Other non-interest income	3,251	1,461	6,866	8,075
	$31,173	$14,451	$72,972	$65,119

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. As covered assets continue to decline, we expect the net impact of these transactions on results of operations to continue to decrease.

The balance of the FDIC indemnification asset is reduced or increased as a result of decreases or increases in cash flows expected to be received from the FDIC related to 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 FDIC indemnification.” This line item includes the significantly mitigating impact of FDIC indemnification related to the following types of transactions in covered assets:

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

Each of these types of transactions is discussed further below.

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Payments in full	$12,052	$14,673	$37,636	$38,110
Foreclosures	205	(459)	466	(1,092)
Short sales	39	(111)	241	(392)
Charge-offs	(47)	(54)	(488)	(857)
Recoveries	115	476	3,406	3,987
Income from resolution of covered assets, net	$12,364	$14,525	$41,261	$39,756

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

The Company recognized net gains on the sale of covered residential loans of $9.3 million and $3.7 million, and related net losses on FDIC indemnification of $(7.4) million and $(4.1) million, for the quarters ended September 30, 2015 and 2014, respectively. For the nine months ended September 30, 2015 and 2014 the Company recognized net gains on the sale of covered residential loans of $26.7 million and $4.6 million, respectively, and related net losses on FDIC indemnification of $(21.5) million and $(2.8) million, respectively. Improvement in the results of the residential loan sales in the quarter and nine months ended September 30, 2015 was a result of improved pricing, reflecting improvements in both the quality of loans sold and market conditions. We anticipate that we will continue to exercise our right to sell covered residential loans on a quarterly basis in the future.

For the nine months ended September 30, 2014, the Company recognized net gains on the sale of covered commercial and consumer loans of $18.0 million and a related net loss on FDIC indemnification of $4.5 million.

The net loss on FDIC indemnification related to covered loan sales for the nine months ended September 30, 2014 did not bear the 80% relationship to the net gain on sale that might generally be expected primarily because indemnification is determined based on the unpaid principal balance of the loans sold rather than carrying value and because proceeds in excess of the unpaid principal balance are not subject to sharing with the FDIC.

See Note 4 to the consolidated financial statements for further information about the sales of covered loans.

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

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

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Net loss on FDIC indemnification of $16.0 million and $53.0 million was recorded for the three and nine months ended September 30, 2015, respectively, compared to $17.0 million and $39.8 million, respectively, for the three and nine months ended September 30, 2014, representing the net change in the FDIC indemnification asset from increases or decreases in cash flows estimated to be received from the FDIC related to gains and losses from covered assets as discussed in the preceding paragraphs. The net impact on earnings before taxes of these transactions related to covered assets for the three and nine months ended September 30, 2015 was $4.1 million and $13.2 million respectively, compared to $2.3 million and $24.5 million for the three and nine months ended September 30, 2014, respectively, as detailed in the following tables (in thousands):

	Three Months Ended September 30,					
	2015			2014		
	Transaction Income (Loss)	Net Loss on FDIC Indemnification	Net Impact on Pre-tax Earnings	Transaction Income (Loss)	Net Loss on FDIC Indemnification	Net Impact on Pre-tax Earnings
Recovery of (provision for) losses on covered loans (1)	$(1,038)	$886	$(152)	$900	$(782)	$118
Income from resolution of covered assets, net	12,364	(9,839)	2,525	14,525	(12,016)	2,509
Gain on sale of covered loans	9,288	(7,430)	1,858	3,667	(4,068)	(401)
Gain on covered investment securities available for sale	—	—	—	209	(167)	42
Loss on covered OREO	(493)	395	(98)	(93)	75	(18)
	$20,121	$(15,988)	$4,133	$19,208	$(16,958)	$2,250

	Nine Months Ended September 30,					
	2015			2014		
	Transaction Income (Loss)	Net Loss on FDIC Indemnification	Net Impact on Pre-tax Earnings	Transaction Income (Loss)	Net Loss on FDIC Indemnification	Net Impact on Pre-tax Earnings
Provision for losses on covered loans (1)	$(565)	$506	$(59)	$(793)	$842	$49
Income from resolution of covered assets, net	41,261	(32,870)	8,391	39,756	(31,413)	8,343
Gain on sale of covered loans	26,711	(21,476)	5,235	22,595	(7,352)	15,243
Gain on covered investment securities available for sale	—	—	—	209	(167)	42
Gain (loss) on covered OREO	(1,186)	816	(370)	2,495	(1,668)	827
	$66,221	$(53,024)	$13,197	$64,262	$(39,758)	$24,504

(1) Transaction income for the three and nine months ended September 30, 2015 includes a recovery of $35 thousand and $102 thousand, respectively, related to unfunded loan commitments included in other non-interest expense in the accompanying consolidated statement of income.

Other components of non-interest income

The increase in gain on sale of non-covered loans for the three and nine months ended September 30, 2015 compared to the three and nine months ended September 30, 2014 related primarily to gains on sales of loans by SBF. Such gains totaled $1.8 million and $2.4 million for the three and nine months ended September 30, 2015, respectively.

Gain on investment securities available for sale, net, of $2.3 million and $5.5 million for the three and nine months ended September 30, 2015, respectively, resulted from opportunities in the market to reposition the portfolio, shortening duration at attractive yields.

Income from lease financing increased to $12.7 million and $26.0 million for the three and nine months ended September 30, 2015, respectively, from $4.1 million and $12.7 million for the three and nine months ended September

30, 2014, respectively. The increase in income is consistent with the growth in the portfolio of equipment under lease. For the three months ended September 30, 2015, lease financing income included $3.9 million of gains on the sale of equipment under lease.

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Non-Interest Expense

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Employee compensation and benefits	$55,316	$50,003	$156,640	$149,008
Occupancy and equipment	19,103	17,782	56,207	52,245
Amortization of FDIC indemnification asset	28,409	17,948	76,874	48,883
Other real estate owned expense, net	1,191	1,501	3,468	1,530
Deposit insurance expense	3,615	2,452	9,696	7,015
Professional fees	4,095	3,106	10,073	9,663
Telecommunications and data processing	3,451	3,332	10,267	9,905
Other non-interest expense	17,089	12,809	46,636	39,765
	$132,269	$108,933	$369,861	$318,014

Annualized non-interest expense as a percentage of average assets was 2.4% and 2.5% for the three months ended September 30, 2015 and 2014, respectively, and 2.4% and 2.6% for the nine months ended September 30, 2015 and 2014, respectively. Excluding amortization of the FDIC indemnification asset, annualized non-interest expense as a percentage of average assets was 1.9% and 2.1% for the three months ended September 30, 2015 and 2014, respectively, and 1.9% and 2.2% or the nine months ended September 30, 2015 and 2014, respectively. The more significant changes in the components of non-interest expense are discussed below.

Amortization of FDIC indemnification asset

Amortization of FDIC indemnification asset totaled $28.4 million and $76.9 million respectively, for the three and nine months ended September 30, 2015 compared to $17.9 million and $48.9 million respectively, for the three and nine months ended September 30, 2014.

The FDIC indemnification asset was initially recorded at its estimated fair value of $3.4 billion, representing the present value of estimated future cash payments from the FDIC for probable losses on covered assets. As projected cash flows from the ACI loans have increased, the yield on the loans has increased accordingly and the estimated future cash payments from the FDIC have decreased. This change in estimated cash flows is recognized prospectively, consistent with the recognition of the increased cash flows from the ACI loans. As a result, the FDIC indemnification asset is being amortized to the amount of the estimated future cash flows. For the three and nine months ended September 30, 2015 the average rate at which the FDIC indemnification asset was amortized was 13.49% and 11.52%, respectively, compared to 6.72% and 5.88%, respectively, during the comparable periods in 2014.

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

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

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A rollforward of the FDIC indemnification asset for the year ended December 31, 2014 and nine months ended September 30, 2015 follows (in thousands):

Balance at December 31, 2013	$1,205,117
Amortization	(69,470)
Reduction for claims filed	(114,916)
Net loss on FDIC indemnification	(46,396)
Balance at December 31, 2014	974,335
Amortization	(76,874)
Reduction for claims filed	(46,307)
Net loss on FDIC indemnification	(53,024)
Balance at September 30, 2015	$798,130

The balance at September 30, 2015 is reflected in the consolidated balance sheet as follows (in thousands):

FDIC indemnification asset	$798,223
Other liabilities	(93)
	$798,130

Subsequent to the termination of loss sharing under the Commercial Shared-Loss Agreement in May 2014, the entire balance of the FDIC indemnification asset relates to residential loans and OREO covered under the Single Family Shared-Loss Agreement. The following table presents the carrying value of the FDIC indemnification asset and the estimated future cash flows at the dates indicated (in thousands):

	September 30, 2015	December 31, 2014
FDIC indemnification asset	$798,223	$974,704
Less expected amortization	(317,653)	(302,669)
Amount expected to be collected from the FDIC	$480,570	$672,035

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

OREO expense, net

During the three and nine months ended September 30, 2015 and 2014, a substantial majority of the gains or losses recognized on the sale or impairment of OREO related to properties covered by the Loss Sharing Agreements. Therefore, 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. The following table presents the components of other real estate owned expense, net for the periods indicated (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
(Gain) loss on sale of OREO	$42	$(147)	$81	$(3,403)
Impairment of OREO	351	240	1,004	1,037
Foreclosure and OREO related expenses	798	1,408	2,383	3,896
Other real estate owned expense, net	$1,191	$1,501	$3,468	$1,530

The $3.4 million gain on sale of OREO during the nine months ended September 30, 2014 resulted primarily from a gain of $2.3 million recognized on the sale of one commercial real estate property during the first quarter of 2014.

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Other components of non-interest expense

Increases in employee compensation and benefits for the three and nine months ended September 30, 2015 compared to the three and nine months ended September 30, 2014 reflected increased head count, particularly from the SBF acquisition and the addition of lending and deposit gathering teams. The largest component of the increase in other non-interest expense for the three and nine months ended September 30, 2015 over comparable periods in the prior year was an increase in depreciation of equipment under operating lease. Increases in most other categories of non-interest expense for the three and nine months ended September 30, 2015 compared to the three and nine months ended September 30, 2014 related to the Company's overall growth.

Income Taxes

The Company's effective tax rate was (46.1)% and 7.6% for the three and nine months ended September 30, 2015, respectively, compared to 27.0% and 32.1% for the three and nine months ended September 30, 2014, respectively. The effective income tax rate for the quarter and nine months ended September 30, 2015 reflects a discrete income tax benefit of $49.3 million. The tax benefit, predicated on guidance issued by the IRS in 2015, relates to the Company's ability to claim additional tax basis in certain assets acquired in the FSB Acquisition. In addition, $5.9 million and $5.0 million, respectively, of reserves for uncertain tax liabilities were released in the quarters ended September 30, 2015 and 2014, due to the lapse of the statute of limitations related thereto.

Analysis of Financial Condition

Average interest-earning assets increased $4.3 billion to $18.8 billion for the nine months ended September 30, 2015 from $14.5 billion for the nine months ended September 30, 2014. This increase was driven by a $3.5 billion increase in the average balance of outstanding loans and a $787 million increase in the average balance of investment securities. The increase in average loans reflected growth of $3.8 billion in average new loans outstanding, partially offset by a $295 million decrease in the average balance of loans acquired in the FSB Acquisition. Average non-interest earning assets remained relatively consistent period over period, reflecting an increase in equipment under operating lease, net and an offsetting decrease in the FDIC indemnification asset. Growth of the new loan and lease portfolio, resolution of covered loans and declines in the amount of the FDIC indemnification asset are trends that are expected to continue.

Average interest bearing liabilities increased by $3.7 billion to $15.6 billion for the nine months ended September 30, 2015 from $11.8 billion for the nine months ended September 30, 2014, due to an increase of $2.7 billion in average interest bearing deposits and a $1.1 billion increase in average FHLB advances. Average non-interest bearing deposits increased by $428 million.

Average stockholders' equity increased by $139 million, due to the retention of earnings and, to a lesser extent, the exercise of stock options.

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Investment Securities Available for Sale

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

	September 30, 2015		December 31, 2014	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
U.S. Treasury securities	$54,947	$55,286	$54,924	$54,967
U.S. Government agency and sponsored enterprise residential mortgage-backed securities	1,267,439	1,291,761	1,501,504	1,524,716
U.S. Government agency and sponsored enterprise commercial mortgage-backed securities	91,325	93,088	101,089	101,858
Re-Remics	110,809	112,734	179,664	183,272
Private label residential mortgage-backed securities and CMOs	494,572	544,543	350,300	403,979
Private label commercial mortgage-backed securities	1,098,343	1,107,954	1,156,166	1,161,485
Single family rental real estate-backed securities	578,743	572,292	446,079	443,017
Collateralized loan obligations	309,595	306,960	174,767	174,332
Non-mortgage asset-backed securities	57,284	59,234	96,250	100,068
Preferred stocks	75,823	85,076	96,294	105,442
State and municipal obligations	175,047	178,191	15,317	15,702
SBA securities	242,340	246,040	298,424	308,728
Other debt securities	3,818	8,287	3,712	8,128
	$4,560,085	$4,661,446	$4,474,490	$4,585,694

Our investment strategy has focused on providing liquidity necessary for day-to-day operations, adding a suitable balance of high credit quality, diversifying assets to the consolidated balance sheet, managing interest rate risk, and generating acceptable returns given our established risk parameters. We have sought to maintain liquidity by investing a significant portion of the portfolio in high quality liquid securities including U.S. Treasury securities, SBA securities and U.S. Government agency mortgage-backed securities. We have also invested in highly rated structured products that, while somewhat less liquid, provide us with attractive yields. Relatively short effective portfolio duration helps mitigate interest rate risk arising from the currently low level of market interest rates. The weighted average expected life of the investment portfolio as of September 30, 2015 was 3.9 years and the effective duration was 1.5 years.

Regulations implementing the Volcker Rule were approved in December 2013. Among other provisions, the regulations generally will serve to prohibit us from holding an ownership interest, as defined, in a covered fund, also as defined. Although uncertainty remains as to how the regulations will be interpreted and implemented by regulatory authorities, there are Re-Remic securities in our portfolio that we believe may be deemed impermissible investments under the regulations. At September 30, 2015, we held Re-Remics with a carrying value of $113 million. At September 30, 2015, substantially all of these securities were in unrealized gain positions. The Re-Remics are an amortizing portfolio and we estimate that their carrying value will be significantly reduced through normal amortization and prepayments prior to the required compliance date. We will continue to evaluate our holdings in light of the regulations and further interpretations or implementation guidance that may be forthcoming, if any. As currently promulgated, we must be in compliance with the regulations implementing the Volcker Rule by July 2016 as it pertains to legacy covered funds, as defined. The Federal Reserve has indicated its intention to extend the conformance period further to July 2017.

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The following table shows the scheduled maturities, carrying values and current yields for investment securities available for sale as of September 30, 2015. Scheduled maturities have been adjusted for anticipated prepayments of mortgage-backed and other pass through securities. Yields on tax-exempt securities have been calculated on a tax-equivalent basis (dollars in thousands):

	Within One Year		After One Year Through Five Years		After Five Years Through Ten Years		After Ten Years		Total	
	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield
U.S. Treasury securities	$—	— %	$55,286	0.93 %	$—	— %	$—	— %	$55,286	0.93 %
U.S. Government agency and sponsored enterprise residential mortgage-backed securities	175,460	2.33 %	788,100	2.26 %	232,431	1.47 %	95,770	1.36 %	1,291,761	2.12 %
U.S. Government agency and sponsored enterprise commercial mortgage-backed securities	12,995	2.62 %	36,451	2.64 %	35,172	2.55 %	8,470	3.24 %	93,088	2.66 %
Re-Remics	51,873	3.70 %	59,208	3.52 %	1,653	3.63 %	—	— %	112,734	3.60 %
Private label residential mortgage backed securities and CMOs	81,061	6.07 %	218,297	4.79 %	139,796	4.09 %	105,389	4.00 %	544,543	4.65 %
Private label commercial mortgage-backed securities	83,270	2.30 %	460,922	2.59 %	463,768	2.27 %	99,994	2.39 %	1,107,954	2.41 %
Single family rental real estate-backed securities	179,292	1.29 %	370,331	2.25 %	2,089	3.71 %	20,580	3.71 %	572,292	2.01 %
Collateralized loan obligations	—	— %	196,548	2.15 %	110,412	2.48 %	—	— %	306,960	2.27 %
Non-mortgage asset-backed securities	6,583	2.74 %	28,031	2.71 %	23,370	3.50 %	1,250	3.57 %	59,234	3.04 %
State and municipal obligations	1,800	4.33 %	7,776	4.33 %	49,112	4.00 %	119,503	4.75 %	178,191	4.52 %
SBA securities	46,460	1.73 %	116,411	1.73 %	56,363	1.74 %	26,806	1.73 %	246,040	1.74 %

Other debt securities	—	— %	—	— %	—	— %	8,287	7.30 %	8,287	7.30 %
	$638,794	2.52 %	$2,337,361	2.52 %	$1,114,166	2.48 %	$486,049	3.29 %	4,576,370	2.59 %
Preferred stocks with no scheduled maturity									85,076	8.86 %
Total investment securities available for sale									$4,661,446	2.69 %

The available for sale investment securities portfolio was in a net unrealized gain position of $101 million at September 30, 2015 with aggregate fair value equal to 102% of amortized cost. Net unrealized gains included $115 million of gross unrealized gains and $14 million of gross unrealized losses. Investment securities available for sale in an unrealized loss position at September 30, 2015 had an aggregate fair value of $1.3 billion. At September 30, 2015, 91.6% of investment securities available for sale were backed by the U.S. Government, U.S. Government agencies or sponsored enterprises or were rated AAA or AA, based on the most recent third-party ratings. Investment securities available for sale totaling $90 million were rated below investment grade or not rated at September 30, 2015, including $89 million of investment securities acquired in the FSB Acquisition, substantially all of which were in unrealized gain positions at September 30, 2015.

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

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

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- the general market condition of the geographic area or industry of the issuer;
- the issuer’s financial condition, performance and business prospects; and
- changes in credit ratings.

No securities were determined to be other-than-temporarily impaired at September 30, 2015 or 2014 or during the three and nine months then ended.

We do not intend to sell securities in significant unrealized loss positions. Based on an assessment of our liquidity position and internal and regulatory guidelines for permissible investments and concentrations, it is not more likely than not that we will be required to sell securities in significant unrealized loss positions prior to recovery of amortized cost basis. The severity of impairment of individual securities in the portfolio is generally not material. For fixed rated securities, unrealized losses in the portfolio at September 30, 2015 were primarily attributable to an increase in medium and long-term market interest rates subsequent to the date the securities were acquired and widening credit spreads. For variable rate securities, unrealized losses were primarily due to widening credit spreads. The timely repayment of principal and interest on U.S. Government agency and sponsored enterprise securities in unrealized loss positions is explicitly or implicitly guaranteed by the full faith and credit of the U.S. Government. Management performed projected cash flow analyses of the private label residential mortgage-backed securities and CMOs and private label commercial mortgage-backed securities in unrealized loss positions, incorporating CUSIP level assumptions consistent with the collateral characteristics of each security including collateral default rate, voluntary prepayment rate, severity and delinquency assumptions. Based on the results of this analysis, no credit losses were projected. Management's analysis of the credit characteristics of individual securities and the underlying collateral and levels of subordination for each of the single family rental real estate-backed securities, collateralized loan obligations and state and municipal obligations in unrealized loss positions is not indicative of projected credit losses. Given the expectation of timely repayment of principal and interest and the generally limited severity of impairment, the impairments were considered to be temporary.

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

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

We have also established a quarterly price validation process whereby we verify the prices provided by our primary pricing service for a sample of securities in the portfolio. Sample sizes vary based on the type of security being priced, with higher sample sizes applied to more difficult to value security types. Verification procedures may consist of obtaining prices from an additional outside source or internal modeling, generally based on Intex. We have established acceptable percentage deviations from the price provided by the initial pricing source. If deviations fall outside the established parameters, we will obtain and evaluate more detailed information about the assumptions and inputs used by each pricing source or, if considered necessary, employ an additional valuation specialist to price the security in question. 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 given our knowledge of the market for each individual security and may include interviews with the outside pricing sources utilized. Depending on the results of the validation process, sample sizes may be extended for particular classes of securities. Results of the validation process are reviewed by the treasury front office and by senior management.

The majority of our investment securities are classified within level 2 of the fair value hierarchy. U.S. Treasury securities and certain preferred stocks are classified within level 1 of the hierarchy. At September 30, 2015 and December 31, 2014, 3.3%

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and 3.8%, respectively, of our investment securities were classified within level 3 of the fair value hierarchy. Securities classified within level 3 of the hierarchy at September 30, 2015 included certain private label residential mortgage-backed securities and trust preferred securities. These securities were classified within level 3 of the hierarchy because proprietary assumptions related to voluntary prepayment rates, default probabilities and loss severities were considered significant to the valuation. There were no transfers of investment securities between levels of the fair value hierarchy during the nine months ended September 30, 2015.

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

Loans Held for Sale

Loans held for sale at September 30, 2015 included $48.4 million of commercial loans and $2.4 million of residential real estate loans originated with the intent to sell in the secondary market. The balance of commercial loans held for sale at September 30, 2015 is comprised of the guaranteed portion of loans guaranteed by U.S. government agencies, some of which were purchased in the acquisition of SBF and some of which were originated by the SBF unit subsequent to the acquisition. Loans are generally sold with servicing retained. Sales of loans in the secondary market and related servicing activity did not have a material impact on the results of operations for the three and nine months ended September 30, 2015 or 2014. We anticipate growth in loan sales and servicing and related revenue from SBF.

Loans

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

	September 30, 2015					
	Non-Covered Loans		Covered Loans			Percent of
	New Loans	ACI	ACI	Non-ACI	Total	Total
Residential:						
1-4 single family residential	$2,906,939	$—	$738,532	$47,957	$3,693,428	24.0 %
Home equity loans and lines of credit	1,121	—	3,456	72,833	77,410	0.5 %
	2,908,060	—	741,988	120,790	3,770,838	24.5 %
Commercial:						
Multi-family	3,021,768	24,588	—	—	3,046,356	19.8 %
Commercial real estate						
Owner occupied	1,172,156	21,805	—	—	1,193,961	7.8 %
Non-owner occupied	2,507,484	25,295	—	—	2,532,779	16.4 %
Construction and land	308,512	—	—	—	308,512	2.0 %
Commercial and industrial	2,704,590	1,199	—	—	2,705,789	17.6 %
Commercial finance subsidiaries	1,802,979	—	—	—	1,802,979	11.7 %
	11,517,489	72,887	—	—	11,590,376	75.3 %
Consumer	33,250	11	—	—	33,261	0.2 %
Total loans	14,458,799	72,898	741,988	120,790	15,394,475	100.0 %
Premiums, discounts and deferred fees and costs, net	45,571	—	—	(8,661)	36,910	
Loans including premiums, discounts and deferred fees and costs	14,504,370	72,898	741,988	112,129	15,431,385	
Allowance for loan and lease losses	(114,800)	—	—	(3,485)	(118,285)	
Loans, net	$14,389,570	$72,898	$741,988	$108,644	$15,313,100	

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Explanation of Responses:

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	December 31, 2014					
	Non-Covered Loans		Covered Loans			Percent of
	New Loans	ACI	ACI	Non-ACI	Total	Total
Residential:						
1-4 single family residential	$2,486,272	$—	$874,522	$56,138	$3,416,932	27.6 %
Home equity loans and lines of credit	1,827	—	22,657	101,142	125,626	1.0 %
	2,488,099	—	897,179	157,280	3,542,558	28.6 %
Commercial:						
Multi-family	1,927,225	24,964	—	—	1,952,189	15.8 %
Commercial real estate						
Owner occupied	1,008,930	34,440	—	—	1,043,370	8.4 %
Non-owner occupied	1,753,317	30,762	—	—	1,784,079	14.4 %
Construction and land	167,713	2,007	—	—	169,720	1.4 %
Commercial and industrial	2,402,064	1,229	—	—	2,403,293	19.4 %
Commercial finance subsidiaries	1,456,751	—	—	—	1,456,751	11.8 %
	8,716,000	93,402	—	—	8,809,402	71.2 %
Consumer	26,293	14	—	—	26,307	0.2 %
Total loans	11,230,392	93,416	897,179	157,280	12,378,267	100.0 %
Premiums, discounts and deferred fees and costs, net	47,097	—	—	(10,595)	36,502	
Loans including premiums, discounts and deferred fees and costs	11,277,489	93,416	897,179	146,685	12,414,769	
Allowance for loan and lease losses	(91,350)	—	—	(4,192)	(95,542)	
Loans, net	$11,186,139	$93,416	$897,179	$142,493	$12,319,227	

Total loans, including premiums, discounts and deferred fees and costs, increased by $3.0 billion to $15.4 billion at September 30, 2015, from $12.4 billion at December 31, 2014. New loans grew by $3.2 billion while loans acquired in the FSB Acquisition declined by $210 million from December 31, 2014 to September 30, 2015. New residential loans grew by $424 million and new commercial loans grew by $2.8 billion during the nine months ended September 30, 2015.

Growth in new loans, including premiums, discounts and deferred fees and costs, for the nine months ended September 30, 2015 included $787 million for the Florida franchise, $1.6 billion for the New York franchise and $877 million for what we refer to as national platforms, consisting of our residential loan purchase program, our mortgage warehouse lending operations, SBF and the Bank's three commercial finance subsidiaries. Our warehouse lending operations, SBF and commercial finance subsidiaries contributed $66 million, $183 million (including $174 million of loans that were part of the SBF acquisition), and $346 million, respectively, to growth in new loans for the nine months ended September 30, 2015, while the residential loan purchase program contributed $282 million.

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

	September 30, 2015			
	Florida	New York	National	Total
Residential	$239,929	$215,393	$2,493,724	$2,949,046
Commercial	4,778,614	4,642,272	2,101,285	11,522,171
Consumer	27,751	5,372	30	33,153
	$5,046,294	$4,863,037	$4,595,039	$14,504,370
	34.8 %	33.5 %	31.7 %	100.0 %

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	December 31, 2014			
	Florida	New York	National	Total
Residential	$196,101	$116,627	$2,211,937	$2,524,665
Commercial	4,042,607	3,177,979	1,505,992	8,726,578
Consumer	20,930	5,115	201	26,246
	$4,259,638	$3,299,721	$3,718,130	$11,277,489
	37.8 %	29.2 %	33.0 %	100.0 %

The geographic concentration of the commercial loans in the national platforms is summarized as follows at the dates indicated:

	September 30, 2015		December 31, 2014	
Florida	$468,495	22.3 %	$351,237	23.3 %
California	218,118	10.4 %	149,621	9.9 %
Iowa	111,520	5.3 %	42,667	2.8 %
Nevada	105,932	5.0 %	103,542	6.9 %
All others (1)	1,197,220	57.0 %	858,925	57.1 %
	$2,101,285	100.0 %	$1,505,992	100.0 %

(1) No other state represented borrowers with more than 5.0% of loans outstanding at September 30, 2015 or December 31, 2014.

At September 30, 2015 and December 31, 2014, respectively, 6.0% and 9.2%, of loans, including premiums, discounts and deferred fees and costs, were acquired in the FSB Acquisition while 5.5% and 8.4%, respectively, were covered loans. Loans acquired in the FSB Acquisition, including covered loans, are declining and new loans increasing as a percentage of the total portfolio as loans acquired in the FSB Acquisition are repaid or resolved and new loan originations and purchases continue. This trend is expected to continue.

Residential Mortgages

Residential mortgages totaled $3.8 billion, or 24.5% of total loans and $3.5 billion, or 28.6% of total loans at September 30, 2015 and December 31, 2014, respectively. The decline in this portfolio segment as a percentage of loans is primarily a result of higher commercial loan originations, reflecting our strategic emphasis on commercial lending, and to a smaller extent, the resolution of covered loans.

The new residential loan portfolio includes both originated and purchased loans. At September 30, 2015 and December 31, 2014, $454 million or 15.4% and $311 million or 12.3%, respectively, of our new 1-4 single family residential loans were originated loans; $2.5 billion or 84.6% and $2.2 billion or 87.7%, respectively, were purchased loans. We currently originate 1-4 single family residential mortgage loans with terms ranging from 10 to 30 years, with either fixed or adjustable interest rates, primarily to customers in Florida and New York. New residential mortgage loans are primarily closed-end first lien loans for the purchase or re-finance of owner occupied property. We have purchased loans to supplement our mortgage origination platform and to geographically diversify our loan portfolio. The purchased residential portfolio consists primarily of jumbo mortgages on owner-occupied properties acquired through established correspondent channels. At September 30, 2015, 33.3% of the new residential loan portfolio were fixed rate loans. The adjustable rate mortgage ("ARM") portfolio included 5/1, 7/1 and 10/1 ARMs. At September 30, 2015, $194 million or 6.6% of new residential mortgage loans were interest-only loans, substantially all of which begin amortizing 10 years after origination. The number of newly originated residential mortgage loans that are re-financings of covered loans is not significant.

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

	September 30, 2015			December 31, 2014		
California	$1,008,304	34.2	%	$1,045,430	41.4	%
New York	519,978	17.6	%	318,484	12.6	%
Florida	409,039	13.9	%	335,073	13.3	%
Connecticut	115,698	3.9	%	109,922	4.4	%
Texas	111,093	3.8	%	105,953	4.2	%
All others (1)	783,813	26.6	%	607,976	24.1	%
	$2,947,925	100.0	%	$2,522,838	100.0	%

(1) No other state represented borrowers with more than 4.0% of loans outstanding at September 30, 2015 or December 31, 2014.

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

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

Commercial loans

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

Management’s loan origination strategy is heavily focused on the commercial portfolio segment, which comprised 79.7% and 77.6% of new loans as of September 30, 2015 and December 31, 2014, respectively.

Commercial real estate loans include term loans secured by owner and non-owner occupied income producing properties including rental apartments, mixed-use properties, industrial properties, retail shopping centers, office buildings, warehouse facilities and hotels as well as real estate secured lines of credit. Loans secured by commercial real estate typically have shorter repayment periods and re-price more frequently than 1-4 single family residential loans but may have longer terms and re-price less frequently than commercial and industrial loans. The Company’s underwriting standards generally provide for loan terms of five to ten years, with amortization schedules of no more than thirty years. LTV ratios are typically limited to no more than 80%. In addition, the Company usually obtains personal guarantees or carve-out guarantees of the principals as an additional enhancement for commercial real estate loans. Owner-occupied commercial real estate loans typically have risk profiles more closely aligned with that of commercial and industrial loans than with other types of commercial real estate loans. Construction and land loans represented only 2.0% of the total loan portfolio at September 30, 2015. Construction and land loans are generally made for projects expected to stabilize within eighteen months of completion in submarkets with strong fundamentals and, to a lesser extent, for-sale residential projects to experienced developers with a strong cushion between market prices and loan basis. At September 30, 2015, the recorded investment in construction loans with available interest reserves totaled $45 million; the amount of available interest reserves totaled $2 million. All of these loans were rated “pass” at September 30, 2015.

Commercial and industrial loans are typically made to small and middle market businesses and include equipment loans, secured and unsecured working capital facilities, formula-based loans, mortgage warehouse lines, taxi medallion loans, lease financing, Small Business Administration product offerings and, to a lesser extent, acquisition finance credit facilities. These loans may be structured as term loans, typically with maturities of three to seven years, or revolving lines of credit which may have multi-year maturities. Commercial loans include shared national credits totaling $917 million at September 30, 2015, typically relationship based loans to borrowers in our geographic footprint.

Through its three commercial finance subsidiaries, Pinnacle Public Finance (“Pinnacle”), United Capital Business Lending (“UCBL”) and Bridge Capital Leasing (“Bridge”), the Bank provides equipment and franchise financing on a national basis using both loan and lease structures. Pinnacle primarily offers essential use equipment financing to municipalities through loan, lease and bond re-funding structures, UCBL offers small business equipment and franchise financing and Bridge primarily provides transportation equipment finance. The Bank's SBF unit originates SBA and USDA guaranteed commercial and commercial real estate loans, generally retaining the unguaranteed portion in portfolio.

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The following table presents the recorded investment in loans and direct finance leases held for investment for each of the three commercial finance subsidiaries and SBF at the dates indicated (in thousands):

	September 30, 2015	December 31, 2014
Pinnacle	$959,086	$751,286
UCBL	421,859	364,623
Bridge	431,036	350,350
SBF	183,338	—
	$1,995,319	$1,466,259

Consumer Loans

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

Asset Quality

In discussing asset quality, a distinction must be made between new loans and loans acquired in the FSB Acquisition. New loans were underwritten under significantly different and generally more conservative standards than the loans acquired in the FSB Acquisition. In particular, credit approval policies have been strengthened, wholesale mortgage origination channels have been eliminated, “no-doc” and option ARM loan products have been eliminated, and real estate appraisal policies have been improved. Although the risk profile of loans acquired in the FSB Acquisition is higher than that of new loans, our exposure to loss related to the loans acquired in the FSB Acquisition is significantly mitigated by the fair value basis recorded in these loans resulting from the application of acquisition accounting and, for the residential loans, by the Single Family Shared-Loss Agreement. Loss sharing under the Commercial Shared-Loss Agreement was terminated on May 21, 2014. At September 30, 2015, covered loans totaled $854 million, all of which were covered under the Single Family Shared-Loss Agreement.

We have established a robust credit risk management framework, put in place an experienced team to lead the workout and recovery process for the commercial and commercial real estate portfolios and implemented a dedicated internal loan review function that reports directly to our Audit and Risk Committee. We have an experienced resolution team in place for covered residential mortgage loans, and have implemented outsourcing arrangements with industry leading firms in certain areas such as OREO resolution.

Loan performance is monitored by our credit administration and workout and recovery departments. Generally, relationships with committed balances greater than $1 million are reviewed at least annually. Additionally, commercial loans are regularly reviewed by our internal loan review department. The Company utilizes a 13 grade internal asset risk classification system as part of its efforts to monitor and maintain commercial asset quality. Loans exhibiting potential credit weaknesses that deserve management’s close attention and that if left uncorrected may result in deterioration of the repayment capacity of the borrower are categorized as special mention. These borrowers may exhibit negative financial trends or erratic financial performance, strained liquidity, marginal collateral coverage, declining industry trends or weak management. Loans with well-defined credit weaknesses that may result in a loss if the deficiencies are not corrected are assigned a risk rating of substandard. These borrowers may exhibit payment defaults, inadequate cash flows, operating losses, increasing balance sheet leverage, project cost overruns, unreasonable construction delays, exhausted interest reserves, declining collateral values, frequent overdrafts or past due real estate taxes. Loans with weaknesses so severe that collection in full is highly questionable or improbable, but because of certain reasonably specific pending factors have not been charged off, are assigned an internal risk rating of doubtful.

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

New Loans

Commercial

The ongoing asset quality of significant commercial loans is monitored on an individual basis through our regular credit review and risk rating process. We believe internal risk rating is the best indicator of the credit quality of commercial loans. Homogenous groups of smaller balance commercial loans may be monitored collectively.

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At September 30, 2015, new commercial loans with aggregate balances of $62 million, $139 million and $12 million were rated special mention, substandard and doubtful, respectively. At December 31, 2014, new commercial loans aggregating $25 million, $41 million and $12 million were rated special mention, substandard and doubtful, respectively. As discussed further in the section entitled "Impaired Loans and Non-Performing Assets" $44 million of the increase in substandard loans is due to one loan relationship. Criticized and classified assets represented 1.9% of the new commercial portfolio at September 30, 2015. See Note 4 to the consolidated financial statements for more detailed information about risk rating of new commercial loans.

The commercial and industrial loan portfolio includes exposure to taxi medallion finance of approximately $215 million at September 30, 2015. The estimated value of underlying taxi medallion collateral and liquidity in the market for sales of medallions have declined in recent periods due to competitive developments in the transportation-for-hire industry. Based on an analysis performed as of September 30, 2015, the taxi medallion portfolio had the following characteristics:

- Approximately 95% of the portfolio was concentrated in New York City.
- Approximately 46% of loans secured directly by taxi medallions had debt service coverage ratios greater than 2.0 and approximately 3% of the portfolio had debt service coverage ratios of less than 1.25.
- The weighted average estimated current LTV for loans directly secured by medallions was approximately 77%.
- Less than 20% of the portfolio consisted of interest only loans.

Residential

New 1-4 single family residential loans past due more than 30 days totaled $8 million and $4 million at September 30, 2015 and December 31, 2014, respectively. The amount of these loans 90 days or more past due was de minimis at both September 30, 2015 and December 31, 2014.

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

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

	September 30, 2015				
	FICO				
LTV	720 or less	721 - 740	741 - 760	761 or greater	Total
60% or less	2.8 %	3.4 %	4.8 %	23.1 %	34.1 %
60% - 70%	2.5 %	2.5 %	3.7 %	16.9 %	25.6 %
70% - 80%	1.9 %	3.7 %	7.0 %	26.2 %	38.8 %
More than 80%	0.9 %	0.1 %	0.1 %	0.4 %	1.5 %
	8.1 %	9.7 %	15.6 %	66.6 %	100.0 %

	December 31, 2014				
	FICO				
LTV	720 or less	721 - 740	741 - 760	761 or greater	Total
60% or less	2.6 %	3.2 %	5.1 %	23.7 %	34.6 %
60% - 70%	2.2 %	2.5 %	4.0 %	16.8 %	25.5 %
70% - 80%	1.7 %	3.9 %	6.8 %	25.7 %	38.1 %
More than 80%	1.1 %	0.1 %	0.1 %	0.5 %	1.8 %
	7.6 %	9.7 %	16.0 %	66.7 %	100.0 %

Explanation of Responses:

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At September 30, 2015, 74.4% of new 1-4 single family residential loans with LTV of more than 80% were insured by the Federal Housing Administration.
At September 30, 2015, the purchased loan portfolio had the following characteristics: substantially all were full documentation with an average FICO score of 769 and average LTV of 65.4%. The majority of this portfolio was owner-occupied, with 92.5% primary residence, 6.7% second homes and 0.8% investment properties. In terms of vintage, 1.0% of the portfolio was originated pre-2011, 17.5% in 2011 and 2012, 32.2% in 2013, 27.9% in 2014 and 21.4% in 2015.
Similarly, the originated loan portfolio had the following characteristics at September 30, 2015: 100% were full documentation with an average FICO score of 755 and average LTV of 62.9%. The majority of this portfolio was owner-occupied, with 81.7% primary residence, 11.3% second homes and 7.0% investment properties. In terms of vintage, 9.9% of the portfolio was originated from 2010 through 2012, 19.9% in 2013, 31.8% in 2014 and 38.4% in 2015.
Consumer
At September 30, 2015 and December 31, 2014 delinquent new consumer loans were insignificant.
Loans Acquired in the FSB Acquisition
Loans acquired in the FSB Acquisition consist of both ACI loans and non-ACI loans. At September 30, 2015, ACI loans totaled $815 million and non-ACI loans totaled $112 million, including premiums, discounts and deferred fees and costs.
Residential
At September 30, 2015, residential ACI loans totaled $742 million and residential non-ACI loans totaled $112 million, including premiums, discounts and deferred fees and costs. All of these loans are covered under the Single Family Shared-Loss Agreement.
Covered residential loans were placed into homogenous pools at the time of the FSB Acquisition and the ongoing credit quality and performance of these loans is monitored on a pool basis. The fair value of the pools was initially measured based on the expected cash flows from each pool. Initial cash flow expectations incorporated significant assumptions regarding prepayment rates, frequency of default and loss severity. For ACI pools, the difference between total contractual payments due and the cash flows expected to be received at acquisition was recognized as non-accretable difference. The excess of expected cash flows over the recorded fair value of each ACI pool at acquisition, known as the accretable yield, is being recognized as interest income over the life of each pool. We monitor the pools quarterly to determine whether any significant changes have occurred in expected cash flows that would be indicative of impairment or necessitate reclassification between non-accretable difference and accretable yield. Generally, improvements in expected cash flows less than 1% of the expected cash flows from a pool are not recorded. This materiality threshold may be revised in the future based on management's judgment. At September 30, 2015, accretable yield on residential ACI loans totaled $881 million and non-accretable difference related to those loans totaled $752 million. Accretable yield on commercial ACI loans totaled $27 million at September 30, 2015, with no significant non-accretable difference remaining.
At September 30, 2015, the recorded investment in non-ACI 1-4 single family residential loans was $40.5 million; $1.4 million or 3.5% of these loans were 30 days or more past due and the balance of loans 90 days or more past due was insignificant. At September 30, 2015, the recorded investment in ACI 1-4 single family residential loans totaled $738.5 million; $39.3 million or 5.3% of these loans were delinquent by 30 days or more and $20.1 million or 2.7% were delinquent by 90 days or more.
At September 30, 2015, non-ACI home equity loans and lines of credit had an aggregate recorded investment of $71.6 million; $6.2 million or 8.7% of these loans were 30 days or more past due and $3.4 million or 4.7% were 90 days or more past due. ACI home equity loans and lines of credit had a carrying amount of $3.5 million at September 30, 2015; amounts 30 days or more contractually delinquent were not significant.

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Home equity loans and lines of credit generally provide that payment terms be reset after an initial contractual period of interest only payments, requiring the pay down of principal through balloon payments or amortization. Additional information regarding ACI and non-ACI home equity loans and lines of credit at September 30, 2015 is summarized as follows:

	ACI		Non-ACI	
Loans resetting from interest only:				
Previously reset	34.6	%	34.9	%
Scheduled to reset within 12 months	22.6	%	14.5	%
Scheduled to reset after 12 months	42.8	%	50.6	%
	100.0	%	100.0	%
Lien position:				
First liens	13.7	%	14.4	%
Second or third liens	86.3	%	85.6	%
	100.0	%	100.0	%

The Company's exposure to loss related to covered loans is significantly mitigated by the Single Family Shared-Loss Agreement and by the fair value basis recorded in these assets resulting from the application of acquisition accounting.

Commercial

At September 30, 2015, ACI commercial loans had a carrying value of $72.9 million, none of which were 90 days or more past due. Aggregate carrying values of $1.3 million and $2.1 million were internally risk rated special mention and substandard, respectively.

Impaired Loans and Non-Performing Assets

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

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

	September 30, 2015			December 31, 2014		
	Covered Assets	Non-Covered Assets	Total	Covered Assets	Non-Covered Assets	Total
Non-accrual loans						
Residential:						
1 - 4 single family residential	$793	$1,098	$1,891	$604	$49	$653
Home equity loans and lines of credit	3,878	—	3,878	3,808	—	3,808
Total residential loans	4,671	1,098	5,769	4,412	49	4,461
Commercial:						
Multi-family	—	1,162	1,162	—	—	—
Commercial real estate	—	7,457	7,457	—	4,688	4,688
Construction and land	—	—	—	—	209	209
Commercial and industrial	—	75,082	75,082	—	13,666	13,666
Commercial finance subsidiaries	—	10,147	10,147	—	9,226	9,226
Total commercial loans	—	93,848	93,848	—	27,789	27,789
Consumer	—	8	8	—	173	173

Total non-accrual loans	4,671	94,954	99,625	4,412	28,011	32,423
Non-ACI and new loans past due 90 days and still accruing	—	—	—	—	—	—
TDRs	3,691	690	4,381	2,188	4,435	6,623
Total non-performing loans	8,362	95,644	104,006	6,600	32,446	39,046
OREO	9,136	540	9,676	13,645	135	13,780
Repossessed assets	—	2,966	2,966	—	—	—
Total non-performing assets	17,498	99,150	116,648	20,245	32,581	52,826
Non-ACI and new TDRs in compliance with their modified terms	4,538	1,800	6,338	3,866	797	4,663
Total impaired loans and non-performing assets	$22,036	$100,950	$122,986	$24,111	$33,378	$57,489
Non-performing loans to total loans (1)		0.66 %	0.67 %		0.29 %	0.31 %
Non-performing assets to total assets (2)		0.44 %	0.52 %		0.17 %	0.27 %
ALLL to total loans (1)		0.79 %	0.77 %		0.80 %	0.77 %
ALLL to non-performing loans		120.03 %	113.73 %		281.54 %	244.69 %
Net charge-offs to average loans (3)		0.10 %	0.11 %		0.08 %	0.15 %

(1) Total loans for purposes of calculating these ratios include premiums, discounts and deferred fees and costs.
(2) Ratio for non-covered assets is calculated as non-performing non-covered assets to total assets.
(3) Annualized

Contractually delinquent ACI loans with remaining accretable yield are not reflected as non-accrual loans because accretion continues to be recorded in income. Accretion continues to be recorded as long as there is an expectation of future cash flows in excess of carrying amount from these loans. The carrying value of ACI loans contractually delinquent by more than 90 days but on which income was still being recognized was $20 million at September 30, 2015 and $23 million at December 31, 2014.

The increase in non-covered, non-performing loans at September 30, 2015 compared to December 31, 2014 is primarily due to one commercial relationship with a balance of $44.3 million at September 30, 2015. The balance of the ALLL at September 30, 2015 includes approximately $6.3 million related to this credit. We have been advised that this borrower was the victim of an external fraud. The substantial majority of the increases in the ratios of non-performing, non-covered loans to total non-covered loans and of non-performing non-covered assets to total assets as well as the substantial majority of the decrease in the ratio of the ALLL related to non-covered loans to total non-covered loans are attributable to this relationship.

New and non-ACI commercial loans are placed on non-accrual status when (i) management has determined that full repayment of all contractual principal and interest is in doubt, or (ii) the loan is past due 90 days or more as to principal or interest unless the loan is well secured and in the process of collection. New and non-ACI residential and consumer loans are generally placed on non-accrual status when 90 days of interest is due and unpaid. When a loan is placed on non-accrual status, uncollected interest accrued is reversed and charged to interest income. Commercial loans are returned to accrual status only after all past due principal and interest has been collected and full repayment of remaining contractual principal and interest is reasonably assured. Residential loans are returned to accrual status when less than 90 days of interest is due and unpaid. Past due status of loans is determined based on the contractual next payment due date. Loans less than 30 days past due are reported as current. Except for ACI loans accounted for in pools, loans that are the subject of TDRs are generally placed on non-accrual status at the time of the modification unless the borrower has no history of missed payments for six months prior to the restructuring. If borrowers perform pursuant to the modified loan terms for at least six months and the remaining loan balances are considered collectable, the loans are returned to accrual status.

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

As of September 30, 2015, eight commercial loans with an aggregate carrying value of $7 million and 42 residential loans with an aggregate carrying value of $9 million had been modified in TDRs and were included in impaired loans and non-performing assets. 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 for the nine months ended September 30, 2015 or 2014.

Potential Problem Loans

Potential problem loans have been identified by management as those loans included in the "substandard accruing" risk rating category. These loans are typically performing, but possess specifically identified credit weaknesses that, if not remedied, may lead to a downgrade to non-accrual status and identification as impaired in the near-term. Substandard accruing new loans totaled $58 million at September 30, 2015. Substantially all of these loans were current as to principal and interest at September 30, 2015.

Loss Mitigation Strategies

Criticized or classified commercial loans in excess of certain thresholds are reviewed quarterly by the Criticized Asset Committee, which determines the appropriate strategy for collection to mitigate the amount of credit losses. Criticized asset reports for each relationship are presented by the assigned relationship manager to the Criticized Asset Committee until such time as the relationships are returned to a satisfactory credit risk rating or otherwise resolved.

We evaluate each residential loan in default to determine the most effective loss mitigation strategy, which may be modification, short sale, or foreclosure. We offer loan modifications under HAMP to eligible borrowers in the residential portfolio. HAMP is a uniform loan modification process that provides eligible borrowers with sustainable monthly mortgage payments equal to a target 31% of their gross monthly income. We have approved 4,356 permanent loan modifications through September 30, 2015 and there are 29 trial loan modifications at September 30, 2015. Substantially all of these modified loans were covered ACI loans accounted for in pools.

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

Analysis of the Allowance for Loan and Lease Losses

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

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events that are inherently uncertain could result in material changes to the level of the ALLL. General economic conditions including but not limited to unemployment rates, real estate values in our primary market areas and the level of interest rates, as well as a variety of other factors that affect the ability of borrowers' businesses to generate cash flows sufficient to service their debts will impact the future performance of the portfolio.

New and non-ACI Loans

Residential

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

A peer group twelve quarter average net charge-off rate is used to estimate the ALLL for the new home equity loan class. See further discussion of the use of peer group loss factors below. The new home equity portfolio is not a significant component of the overall loan portfolio. Based on an updated analysis of historical performance, OREO and short sale losses, recent trending data and other internal and external factors, we have concluded that historical performance by portfolio class is the best indicator of incurred loss for the non-ACI 1-4 single family residential and home equity portfolio classes. For each of these portfolio classes, a quarterly roll rate matrix is calculated by delinquency bucket to measure the rate at which loans move from one delinquency bucket to the next during a given quarter. An average four quarter roll rate matrix is used to estimate the amount within each delinquency bucket expected to roll to 120+ days delinquent. We assume no cure for those loans that are currently 120+ days delinquent. Loss severity given default is estimated based on internal data about OREO sales and short sales from the portfolio. The ALLL calculation incorporates a 100% loss severity assumption for home equity loans that are projected to roll to default. For non-ACI residential loans, the allowance is initially calculated based on UPB. The total of UPB, less the calculated allowance is then compared to the carrying amount of the loans, net of unamortized credit related fair value adjustments established at acquisition. If the calculated balance net of the allowance is less than the carrying amount, an additional allowance is established. Any increase or decrease in the allowance for non-ACI residential loans will result in a corresponding increase or decrease in the FDIC indemnification asset.

Commercial and Consumer

Since the new commercial loan portfolio is not yet seasoned enough to exhibit a loss trend, the ALLL for new commercial loans is based primarily on peer group average annual historical net charge-off rates by loan class and the Company's internal credit risk rating system. The allowance is comprised of specific reserves for loans that are individually evaluated and determined to be impaired as well as general reserves for individually evaluated loans determined not to be impaired and loans that do not meet our established threshold for individual evaluation. Commercial relationships graded substandard or doubtful and on non-accrual status with committed credit facilities greater than or equal to $750,000 are individually evaluated for impairment. For loans evaluated individually for impairment and determined to be impaired, a specific allowance is established based on the present value of expected cash flows discounted at the loan's effective interest rate, the estimated fair value of the loan, or for collateral dependent loans, the estimated fair value of collateral less costs to sell. Loans modified in TDRs are also evaluated individually for impairment. We believe that loans rated special mention, substandard or doubtful that are not individually evaluated for impairment exhibit characteristics indicative of a heightened level of credit risk. Loss factors for these loans are determined by using default frequency and severity information applied at the loan level. Estimated default frequencies and severities are based on available industry data.

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

The peer group used to calculate the average annual historical net charge-off rates that form the basis for our general reserve calculations for new commercial, home equity and consumer loans is a group of 34 banks made up of the banks included in the OCC Midsize Bank Group plus two additional banks in the New York region that management believes to be comparable based on size and nature of lending operations. The OCC Midsize Bank Group primarily includes commercial banks with total assets ranging from $10 - $50 billion. Peer bank data is obtained from the Statistics on Depository Institutions

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

The loss experience period used to calculated an average net charge-off rate is twelve quarters. We believe a twelve-quarter look back period is appropriate as it captures a range of observations reflecting the performance of loans originated in the current economic cycle and includes sufficient history. We believe the twelve-quarter look back period to be consistent with the range of industry practice.

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

Qualitative Factors

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

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

ACI Loans

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

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

Based on our projected cash flow analysis, no ALLL related to 1-4 single family residential and home equity ACI pools was recorded at September 30, 2015 or December 31, 2014.

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The primary assumptions underlying estimates of expected cash flows for ACI commercial loans are default probability and severity of loss given default. Following the sale of ACI commercial loans in 2014, assessments of default probability and severity are based on net realizable value analyses prepared at the individual loan level. Based on our analysis, no ALLL related to ACI commercial loans was recorded at September 30, 2015 or December 31, 2014.

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

	Nine Months Ended September 30, 2015			
	New Loans	ACI Loans	Non-ACI Loans	Total
Balance at December 31, 2014	$91,350	$—	$4,192	$95,542
Provision for loan losses:				
1-4 single family residential	3,928	—	(337)	3,591
Home equity loans and lines of credit	(11)	—	1,052	1,041
Multi-family	5,324	—	(4)	5,320
Commercial real estate				
Owner occupied	(2,216)	—	—	(2,216)
Non-owner occupied	6,739	—	—	6,739
Construction and land	649	—	—	649
Commercial and industrial	9,449	—	(44)	9,405
Commercial finance subsidiaries	9,817	—	—	9,817
Consumer	41	—	—	41
Total Provision	33,720	—	667	34,387
Charge-offs:				
Home equity loans and lines of credit	—	—	(1,458)	(1,458)
Commercial real estate				
Non-owner occupied	(303)	—	—	(303)
Commercial and industrial	(3,246)	—	—	(3,246)
Commercial finance subsidiaries	(7,637)	—	—	(7,637)
Total Charge-offs	(11,186)	—	(1,458)	(12,644)
Recoveries:				
Home equity loans and lines of credit	—	—	36	36
Multi-family	—	—	4	4
Commercial real estate				
Non-owner occupied	1	—	—	1
Commercial and industrial	807	—	44	851
Commercial finance subsidiaries	80	—	—	80
Consumer	28	—	—	28
Total Recoveries	916	—	84	1,000
Net Charge-offs:	(10,270)	—	(1,374)	(11,644)
Balance at September 30, 2015	$114,800	$—	$3,485	$118,285

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	Nine Months Ended September 30, 2014			
	New Loans	ACI Loans	Non-ACI Loans	Total
Balance at December 31, 2013	$57,330	$2,893	$9,502	$69,725
Provision for loan losses:				
1-4 single family residential	1,068	—	360	1,428
Home equity loans and lines of credit	2	—	(1,461)	(1,459)
Multi-family	8,039	(38)	(4)	7,997
Commercial real estate				
Owner occupied	512	(13)	(6)	493
Non-owner occupied	7,500	1,588	(11)	9,077
Construction and land	735	443	7	1,185
Commercial and industrial	3,281	8	(404)	2,885
Commercial finance subsidiaries	462	—	—	462
Consumer	(1,410)	324	—	(1,086)
Total Provision	20,189	2,312	(1,519)	20,982
Charge-offs:				
1-4 single family residential	—	—	(216)	(216)
Home equity loans and lines of credit	—	—	(1,980)	(1,980)
Multi-family	—	(285)	—	(285)
Commercial real estate				
Owner occupied	—	(356)	—	(356)
Non-owner occupied	(51)	(3,032)	—	(3,083)
Construction and land	—	(635)	(13)	(648)
Commercial and industrial	(4,230)	(573)	(477)	(5,280)
Commercial finance subsidiaries	(5)	—	—	(5)
Consumer	(1,083)	(324)	—	(1,407)
Total Charge-offs	(5,369)	(5,205)	(2,686)	(13,260)
Recoveries:				
Home equity loans and lines of credit	—	—	16	16
Multi-family	—	—	4	4
Commercial real estate				
Non-owner occupied	—	—	3	3
Commercial and industrial	438	—	469	907
Commercial finance subsidiaries	2	—	—	2
Consumer	489	—	—	489
Total Recoveries	929	—	492	1,421
Net Charge-offs:	(4,440)	(5,205)	(2,194)	(11,839)
Balance at September 30, 2014	$73,079	$—	$5,789	$78,868

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The following tables show the distribution of the ALLL, at the dates indicated (dollars in thousands)

	September 30, 2015					
	New Loans	ACI Loans	Non-ACI Loans	Total	%(1)	
Residential:						
1 - 4 single family residential	$11,044	$—	$608	$11,652	24.0	%
Home equity loans and lines of credit	6	—	2,877	2,883	0.5	%
	11,050	—	3,485	14,535	24.5	%
Commercial:						
Multi-family	20,294	—	—	20,294	19.8	%
Commercial real estate						
Owner occupied	6,057	—	—	6,057	7.8	%
Non-owner occupied	24,052	—	—	24,052	16.4	%
Construction and land	3,374	—	—	3,374	2.0	%
Commercial and industrial	32,877	—	—	32,877	17.6	%
Commercial finance subsidiaries	16,837	—	—	16,837	11.7	%
	103,491	—	—	103,491	75.3	%
Consumer	259	—	—	259	0.2	%
	$114,800	$—	$3,485	$118,285	100.0	%

	December 31, 2014					
	New Loans	ACI Loans	Non-ACI Loans	Total	%(1)	
Residential:						
1 - 4 single family residential	$7,116	$—	$945	$8,061	27.6	%
Home equity loans and lines of credit	17	—	3,247	3,264	1.0	%
	7,133	—	4,192	11,325	28.6	%
Commercial:						
Multi-family	14,970	—	—	14,970	15.8	%
Commercial real estate						
Owner occupied	8,273	—	—	8,273	8.4	%
Non-owner occupied	17,615	—	—	17,615	14.4	%
Construction and land	2,725	—	—	2,725	1.4	%
Commercial and industrial	25,867	—	—	25,867	19.4	%
Commercial finance subsidiaries	14,577	—	—	14,577	11.8	%
	84,027	—	—	84,027	71.2	%
Consumer	190	—	—	190	0.2	%
	$91,350	$—	$4,192	$95,542	100.0	%

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

The overall increase in the balance of the ALLL for new loans at September 30, 2015 as compared to December 31, 2014 reflects the impact of growth of the new loan portfolio. The impact of a net decrease in historical loss rates was largely offset by a net increase in qualitative reserve factors and an increase in specific reserves for impaired loans. The net increase in qualitative reserves was primarily attributable to increases in qualitative factors related to GDP growth rates; the level of policy and procedure exceptions in certain segments of the portfolio; the level of criticized and classified assets in certain segments of the portfolio; and decreases in the qualitative factor related to changes in lending policies and procedures. Factors influencing significant components of the change in the ALLL at September 30, 2015 compared to December 31, 2014, as related to specific loan types, include:

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Explanation of Responses:

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- A $3.9 million increase for new 1-4 single family residential loans was attributable to increased qualitative loss factors and growth in the portfolio.
- Increases of $5.3 million for new multi-family and $6.4 million for new non-owner occupied commercial real estate loans reflected the growth of the corresponding loan portfolio segments and increases in qualitative reserve factors, partially offset by decreases in the peer group net charge-off rates.
- A $7.0 million increase for new commercial and industrial loans was primarily attributable to a specific reserve of $6.3 million recognized at September 30, 2015 relating to one commercial relationship as discussed above in the section entitled "Impaired Loans and Non-Performing Assets."
- A $2.2 million decrease for new owner occupied commercial real estate loans, in spite of the growth of the corresponding loan portfolio, was primarily driven by decreased peer group charge-off rates.

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

Equipment under Operating Lease

Equipment under operating lease primarily consists of railcar equipment we have purchased and leased to North American commercial end-users, predominantly companies in the petroleum/natural gas extraction and railroad line-haul industries. The portfolio also includes a lesser amount of air and other land transport equipment. These equipment leases provide additional diversity in asset classes, geography and financing structures, with the potential for attractive after-tax returns. The portfolio of equipment under operating lease grew by $87 million during the nine months ended September 30, 2015. There were no significant changes in the performance of lessees during the nine months ended September 30, 2015. There were no impairments of residuals or asset carrying values, missed payments, time off-lease or restructurings related to the operating lease portfolio during the quarter.

Other Real Estate Owned

The following table presents the changes in OREO for the periods indicated (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Balance, beginning of period	$9,414	$21,015	$13,780	$40,570
Transfers from loan portfolio	4,599	6,231	10,690	21,542
Sales	(3,986)	(8,475)	(13,790)	(42,544)
Impairment	(351)	(240)	(1,004)	(1,037)
Balance, end of period	$9,676	$18,531	$9,676	$18,531

OREO consisted of the following types of properties at the dates indicated (in thousands):

	September 30, 2015			December 31, 2014		
	Covered	Non-Covered	Total	Covered	Non-Covered	Total
1-4 single family residential	$8,412	$ —	$8,412	$12,341	$ —	$12,341
Condominium	724	—	724	1,304	—	1,304
Commercial real estate	—	540	540	—	—	—
Land	—	—	—	—	135	135
	$9,136	$ 540	$9,676	$13,645	$ 135	$13,780

There were 131 and 123 residential units in the foreclosure pipeline and 38 and 56 residential units in OREO inventory at September 30, 2015 and December 31, 2014, respectively.

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Deposits

The following table presents information about our deposits for the periods indicated (dollars in thousands):

	Three Months Ended September 30,						Nine Months Ended September 30,					
	2015			2014			2015			2014		
	Average Balance	Average Rate Paid		Average Balance	Average Rate Paid		Average Balance	Average Rate Paid		Average Balance	Average Rate Paid	
Demand deposits:												
Non-interest bearing	$2,678,429	—	%	$2,447,150	—	%	$2,698,570	—	%	$2,270,947	—	%
Interest bearing	1,352,069	0.45	%	791,648	0.41	%	1,129,288	0.46	%	731,712	0.41	%
Money market	6,549,784	0.58	%	4,576,652	0.56	%	6,043,972	0.56	%	4,248,735	0.53	%
Savings	524,946	0.32	%	592,728	0.30	%	557,098	0.32	%	666,993	0.30	%
Time	4,396,640	1.12	%	3,934,361	1.18	%	4,210,793	1.12	%	3,643,425	1.19	%
	$15,501,868	0.61	%	$12,342,539	0.63	%	$14,639,721	0.60	%	$11,561,812	0.61	%

Total deposits at September 30, 2015 and December 31, 2014 included $3.0 billion and $1.6 billion, respectively, of deposits in New York.

The following table shows scheduled maturities of certificates of deposit with denominations greater than or equal to $100,000 as of September 30, 2015 (in thousands):

Three months or less	$636,606
Over three through six months	547,353
Over six through twelve months	1,122,673
Over twelve months	1,146,016
	$3,452,648

Federal Home Loan Bank Advances and Other Borrowings

Outstanding FHLB advances and other borrowings consisted of the following at the dates indicated (dollars in thousands):

	September 30, 2015	December 31, 2014
FHLB advances	$4,083,491	$3,307,932
Capital lease obligations	10,325	10,627
	$4,093,816	$3,318,559

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In addition to deposits, we utilize FHLB advances to fund growth in interest earning assets; the advances provide us with additional flexibility in managing both term and cost of funding. FHLB advances are secured by FHLB stock, qualifying residential first mortgage, commercial real estate and home equity loans, and mortgage-backed securities. The contractual balance of FHLB advances outstanding at September 30, 2015 is scheduled to mature as follows (in thousands):

Maturing in:	
2015—31 days or less	$575,000
2015—Over 31 days	375,250
2016	1,955,000
2017	1,030,000
2018	75,000
Thereafter	75,000
Total contractual balance outstanding	4,085,250
Unamortized modification costs	(1,759)
Carrying value	$4,083,491

Capital Resources

Stockholders' equity increased $158 million for the nine months ended September 30, 2015 due primarily to the retention of earnings. The exercise of stock options also contributed to the increase.

Pursuant to the Federal Deposit Insurance Act, the federal banking agencies have adopted regulations setting forth a five-tier system for measuring the capital adequacy of the financial institutions they supervise. At September 30, 2015 and December 31, 2014, BankUnited and the Company had capital levels that exceeded both the regulatory well-capitalized guidelines and all internal capital ratio targets.

The following table presents the Company’s regulatory capital ratios as of September 30, 2015 (dollars in thousands):

	Actual		Required to be Considered Well Capitalized		Required to be Considered Adequately Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Tier 1 leverage	$2,101,464	9.70 %	N/A (1)	N/A (1)	$866,897	4.00 %
CET 1 risk-based capital	$2,101,464	13.46 %	$1,015,189	6.50 %	$702,823	4.50 %
Tier 1 risk-based capital	$2,101,464	13.46 %	$1,249,463	8.00 %	$937,097	6.00 %
Total risk-based capital	$2,226,747	14.26 %	$1,561,829	10.00 %	$1,249,463	8.00 %

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

Liquidity

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

Prior to 2015, our consolidated statements of cash flows reflected net cash outflows from operating activities. For the nine months ended September 30, 2015, net cash provided by operating activities was $160.2 million compared with net cash used in operating activities of $49.7 million for the year ended December 31, 2014. The primary driver of cash outflows from operations reflected in the consolidated statements of cash flows for the year ended December 31, 2014 was accretion on ACI loans, which is reflected as a non-cash reduction in net income to arrive at operating cash flows. Accretion on ACI loans totaled $216.2 million and $338.9 million for the nine months ended September 30, 2015 and the year ended December 31, 2014, respectively. Accretable yield on ACI loans represents the excess of expected future cash flows over the carrying amount of the loans, and is recognized as interest income over the expected lives of the loans. Amounts recorded as accretion are realized in cash as individual loans are paid down or otherwise resolved; however, the timing of cash realization may differ from the timing of income recognition. These cash flows from the repayment or resolution of loans acquired in the FSB Acquisition,

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inclusive of amounts that have been accreted through earnings over time, are recognized as cash flows from investing activities in the consolidated statements of cash flows upon receipt. Cash payments from the FDIC in the form of reimbursements of losses related to the covered loans under the Loss Sharing Agreements are also characterized as investing cash flows. These reimbursements from the FDIC totaled $46.3 million and $114.9 million for the nine months ended September 30, 2015 and the year ended December 31, 2014, respectively; exceeding net operating cash outflows for the year ended December 31, 2014. Both cash generated by the repayment and resolution of loans acquired in the FSB Acquisition and cash payments received from the FDIC have been and are expected to continue to be consistent and relatively predictable sources of liquidity available to fund operating needs, dividends to BankUnited, Inc. and new loan growth. Cash generated by the repayment and resolution of loans acquired in the FSB Acquisition totaled $489.6 million and $776.8 million for the nine months ended September 30, 2015 and the year ended December 31, 2014, respectively.

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

BankUnited has access to additional liquidity through FHLB advances, other collateralized borrowings, wholesale deposits or the sale of available for sale securities. At September 30, 2015, unencumbered investment securities available for sale totaled $3.3 billion. At September 30, 2015, BankUnited had available borrowing capacity at the FHLB of $1.9 billion, unused borrowing capacity at the FRB of $83 million and unused Federal funds and lines of credit totaling $70 million. Management also has the ability to exert substantial control over the rate and timing of growth of the new loan portfolio, and resultant requirements for liquidity to fund new loans.

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

The Asset/Liability Committee ("ALCO") policy has established several measures of liquidity which are monitored monthly by ALCO and quarterly by the Board of Directors. One measure of liquidity monitored by management is the 30 day total liquidity ratio, defined as (a) the sum of cash and cash equivalents, pledgeable securities, a measure of funds expected to be generated by operations over the next 30 days, and borrowing capacity from the FHLB and brokered deposits; divided by (b) the sum of potential deposit runoff, liabilities maturing and a measure of funds expected to be used in operations over the next 30 days. BankUnited’s liquidity is considered acceptable if the 30 day total liquidity ratio exceeds 1.00%. At September 30, 2015, BankUnited’s 30 day total liquidity ratio was 1.54%.

Management also monitors a one year liquidity ratio, defined as (a) cash and cash equivalents, pledgeable securities, unused borrowing capacity at the FHLB, and loans and non-agency securities maturing within one year; divided by (b) deposits and borrowings maturing within one year. The maturity of deposits, excluding certificate of deposits, is based on retention rates derived from the most recent external core deposit analysis obtained by the Company. This ratio allows management to monitor liquidity over a longer time horizon. The acceptable threshold established by ALCO for this liquidity measure is 100%. At September 30, 2015, BankUnited’s one year liquidity ratio was 145%.

Additional measures of liquidity regularly monitored by ALCO include the ratio of FHLB advances to tier 1 capital plus the ALLL, the ratio of FHLB advances to total assets and a measure of available liquidity to volatile liabilities. At September 30, 2015, BankUnited was within acceptable limits established by ALCO for each of these measures.

As a holding company, BankUnited, Inc. is a corporation separate and apart from its banking subsidiary, and therefore, provides for its own liquidity. BankUnited, Inc.’s main sources of funds include management fees and dividends from the Bank, access to public debt and capital markets and, to a lesser extent, its own available for sale securities portfolio. There are regulatory limitations that affect the ability of the Bank to pay dividends to BankUnited, Inc. Management believes that such limitations will not impact our ability to meet our ongoing near-term cash obligations.

We expect that our liquidity requirements will continue to be satisfied over the next 12 months through these sources of funds.

Interest Rate Risk

The principal component of the Company’s risk of loss arising from adverse changes in the fair value of financial instruments, or market risk, is interest rate risk, including the risk that assets and liabilities with similar re-pricing characteristics may not reprice at the same time or to the same degree. The primary objective of the Company’s asset/liability management activities is to maximize net interest income, while maintaining acceptable levels of interest rate risk. The ALCO

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is responsible for establishing policies to limit exposure to interest rate risk, and to ensure procedures are established to monitor compliance with these policies. The guidelines established by ALCO are approved at least annually by the Board of Directors.

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

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

The Company's ALCO policy has established that interest income sensitivity will be considered acceptable if forecast net interest income in the plus 200 basis point rate ramp scenario is within 5% of forecast net interest income in the most likely rate scenario over the next twelve months and within 10% in the second year. The following table illustrates the impact on forecasted net interest income of plus 100, plus 200 and plus 300 basis point scenarios at September 30, 2015:

	Plus 100	Plus 200	Plus 300
September 30, 2015			
Twelve Months	0.6 %	1.6 %	2.6 %
Twenty Four Months	2.0 %	4.2 %	6.4 %

Management also simulates changes in the economic value of equity ("EVE") in various interest rate environments. The ALCO policy has established parameters of acceptable risk that are defined in terms of the percentage change in EVE from a base scenario under six rate scenarios, derived by implementing immediate parallel movements of plus and minus 100, 200 and 300 basis points from current rates. We did not simulate decreases in interest rates at September 30, 2015 due to the current low rate environment. The parameters established by ALCO stipulate that the change in EVE is considered acceptable if the change is less than 8%, 13% and 18% in plus 100, 200 and 300 basis point scenarios, respectively. As of September 30, 2015, our simulation for BankUnited indicated percentage changes from base EVE of (3.2)%, (7.7)% and (12.7)% in plus 100, 200, and 300 basis point scenarios, respectively.

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

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

Derivative Financial Instruments

Interest rate swaps are one of the tools we use to manage interest rate risk. These derivative instruments are used to mitigate exposure to changes in interest rates on FHLB advances and time deposits and to manage duration of liabilities. These interest rate swaps are designated as cash flow hedging instruments. The fair value of these instruments is included in other assets and other liabilities in our consolidated balance sheets and changes in fair value are reported in accumulated other comprehensive income. At September 30, 2015, outstanding interest rate swaps designated as cash flow hedges had an aggregate notional amount of $2.2 billion. The aggregate fair value of interest rate swaps designated as cash flow hedges included in other liabilities was $60 million.

Interest rate swaps and caps not designated as cash flow hedges had an aggregate notional amount of $1.3 billion at September 30, 2015. The aggregate fair value of these interest rate swaps and caps included in other assets was $38 million and

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the aggregate fair value included in other liabilities was $38 million. These interest rate swaps and caps were entered into as accommodations to certain of our commercial borrowers.
See Note 7 to the consolidated financial statements for more information about our derivative positions.

Off-Balance Sheet Arrangements

Commitments

We routinely enter into commitments to extend credit to our customers, including commitments to fund loans or lines of credit and commercial and standby letters of credit. The credit risk associated with these commitments is essentially the same as that involved in extending loans to customers and they are subject to our normal credit policies and approval processes. While these commitments represent contractual cash requirements, a significant portion of commitments to extend credit may expire without being drawn upon. The following table details our outstanding commitments to extend credit as of September 30, 2015 (in thousands):

	Covered	Non-Covered	Total
Commitments to fund loans	$—	$666,356	$666,356
Commitments to purchase loans	—	129,215	129,215
Unfunded commitments under lines of credit	19,285	1,471,154	1,490,439
Commercial and standby letters of credit	—	59,533	59,533
	$19,285	$2,326,258	$2,345,543

Critical Accounting Policies and Estimates

The Company has made no significant changes in its critical accounting policies and significant estimates from those disclosed in the 2014 Annual Report on Form 10-K.

Non-GAAP Financial Measure

Tangible book value per common share is a non-GAAP financial measure. Management believes this measure is relevant to understanding the capital position and performance of the Company. Disclosure of this non-GAAP financial measure also provides a meaningful base for comparability to other financial institutions. The following table reconciles the non-GAAP financial measurement of tangible book value per common share to the comparable GAAP financial measurement of book value per common share at September 30, 2015 (in thousands except share and per share data):

Total stockholders' equity	$2,210,568
Less: goodwill and other intangible assets	78,408
Tangible stockholders' equity	$2,132,160
Common shares issued and outstanding	103,529,759
Book value per common share	$21.35
Tangible book value per common share	$20.59

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Net income, earnings per diluted common share, return on average assets and return of average stockholders' equity, excluding the impact of a discrete income tax benefit and related professional fees are non-GAAP financial measures. Management believes disclosure of these measures enhances readers' ability to compare the Company's financial performance for the current period to that of other periods presented. The following tables reconcile these non-GAAP financial measurements to the comparable GAAP financial measurements of net income, earnings per diluted share, return on average assets and return of average stockholders' equity for the three and nine months ended September 30, 2015 (in thousands except share and per share data):

	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2015
Net income excluding the impact of a discrete income tax benefit and related professional fees:		
Net income (GAAP)	$102,303	$195,397
Less discrete income tax benefit	(49,323)	(49,323)
Add back related professional fees, net of tax of $524	801	801
Net income excluding the impact of a discrete income tax benefit and related professional fees (non-GAAP)	$53,781	$146,875
Diluted earnings per common share, excluding the impact of a discrete income tax benefit and related professional fees:		
Diluted earnings per common share (GAAP)	$0.95	$1.83
Impact on diluted earnings per common share of discrete income tax benefit and related professional fees (non-GAAP)	(0.47)	(0.47)
Impact on diluted earnings per common share of discrete income tax benefit and related professional fees allocated to participating securities (non-GAAP)	0.02	0.02
Diluted earnings per common share, excluding the impact of a discrete income tax benefit and related professional fees (non-GAAP)(1)	$0.50	$1.37
Impact on diluted earnings per common share of discrete income tax benefit and related professional fees:		
Discrete income tax benefit and related professional fees, net of tax	$(48,522)	$(48,522)
Weighted average shares for diluted earnings per share (GAAP)	103,316,798	102,782,029
Impact on diluted earnings per common share of discrete income tax benefit and related professional fees (non-GAAP)	$(0.47)	$(0.47)
Impact on diluted earnings per common share of discrete income tax benefit and related professional fees allocated to participating securities:		
Discrete income tax benefit and related professional fees, net of tax, allocated to participating securities	$1,898	$1,885
Weighted average shares for diluted earnings per share (GAAP)	103,316,798	102,782,029
Impact on diluted earnings per common share of discrete income tax benefit and related professional fees allocated to participating securities (non-GAAP)	$0.02	$0.02

(1) Amount for the nine months ended September 30, 2015 adjusted for rounding

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	Three Months Ended September 30, 2015		Nine Months Ended September 30, 2015	
Return on average assets excluding the impact of a discrete income tax benefit and related professional fees:				
Return on average assets (GAAP)	1.86	%	1.26	%
Less impact on return on average assets of discrete income tax benefit and related professional fees	(0.88	)%	(0.31	)%
Return on average assets excluding the impact of a discrete income tax benefit and related professional fees (non-GAAP)	0.98	%	0.95	%
Impact on return on average assets of discrete income tax benefit and related professional fees:				
Discrete income tax benefit and related professional fees, net of tax	$(48,522	)	$(48,522	)
Average assets (GAAP)	21,863,575		20,685,466	
Impact on return on average assets of discrete income tax benefit and related professional fees (non-GAAP)	(0.88	)%	(0.31	)%
Return on average stockholders' equity excluding the impact of a discrete income tax benefit and related professional fees:				
Return on average stockholders' equity (GAAP)	18.64	%	12.21	%
Less impact on return on average stockholders' equity of discrete income tax benefit and related professional fees	(8.84	)%	(3.03	)%
Return on average stockholders' equity excluding the impact of a discrete income tax benefit and related professional fees (non-GAAP)	9.80	%	9.18	%
Impact on return on average stockholders' equity of discrete income tax benefit and related professional fees:				
Discrete income tax benefit and related professional fees, net of tax	$(48,522	)	$(48,522	)
Average stockholder's equity (GAAP)	2,178,016		2,138,733	
Impact on return on average assets of discrete income tax benefit and related professional fees (non-GAAP)	(8.84	)%	(3.03	)%

Item 3. Quantitative and Qualitative Disclosures About Market Risk
See the section entitled "Interest Rate Risk" included in Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations."
Item 4. Controls and Procedures
As of the end of the period covered by this Form 10-Q, we carried out an evaluation under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as defined in Exchange Act Rules 13a-15(e) and 15d-15(e). Based upon that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that our disclosure controls and procedures were effective.
During the quarter ended September 30, 2015, there were no changes in the Company's internal control over financial reporting that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

There have been no material changes in the risk factors disclosed by the Company in its 2014 Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 26, 2015.

Item 6. Exhibits

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

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized this 30th day of October 2015.

/s/ John A. Kanas
John A. Kanas
Chairman, President and Chief Executive Officer

/s/ Leslie N. Lunak
Leslie N. Lunak
Chief Financial Officer

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101.PRE	XBRL Taxonomy Extension Presentation Linkbase	Filed herewith