UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2014

OR

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

For the transition period from to

Commission File Number: 001-35039

BankUnited, Inc.

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

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

Class	**May 6, 2014**
Common Stock, $0.01 Par Value	101,646,590 Shares

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BankUnited, Inc.

Form 10-Q

For the Quarter Ended March 31, 2014

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

BANKUNITED, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS - UNAUDITED

(In thousands, except share and per share data)

	March 31, 2014	December 31, 2013
ASSETS		
Cash and due from banks:		
Non-interest bearing	$ 41,947	$ 45,976
Interest bearing	13,050	14,590
Interest bearing deposits at Federal Reserve Bank	204,772	190,075
Federal funds sold	3,392	2,108
Cash and cash equivalents	263,161	252,749
Investment securities available for sale, at fair value (including covered securities of $209,255 and $205,769)	3,526,895	3,637,124
Non-marketable equity securities	153,649	152,066
Loans held for sale	1,420	194
Loans (including covered loans of $1,313,024 and $1,483,888)	9,973,810	9,053,609
Allowance for loan and lease losses	(70,028)	(69,725)
Loans, net	9,903,782	8,983,884
FDIC indemnification asset	1,131,424	1,205,117
Bank owned life insurance	214,794	206,759
Equipment under operating lease	208,559	196,483
Other real estate owned (including covered OREO of $29,164 and $39,672)	29,569	40,570
Deferred tax asset, net	77,196	70,626
Goodwill and other intangible assets	68,898	69,067
Other assets	172,305	232,010
Total assets	$ 15,751,652	$ 15,046,649
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities:		
Demand deposits:		
Non-interest bearing	$ 2,173,620	$ 2,171,335
Interest bearing	709,569	676,079
Savings and money market	4,821,363	4,402,987
Time	3,419,226	3,282,027
Total deposits	11,123,778	10,532,428
Federal Home Loan Bank advances and other borrowings	2,473,508	2,414,313
Other liabilities	174,662	171,210
Total liabilities	13,771,948	13,117,951
Commitments and contingencies		

Stockholders equity:				
Common stock, par value $0.01 per share, 400,000,000 shares authorized; 101,663,937 and 101,013,014 shares issued and outstanding		1,017		1,010
Paid-in capital		1,339,996		1,334,945
Retained earnings		568,575		535,263
Accumulated other comprehensive income		70,116		57,480
Total stockholders equity		1,979,704		1,928,698
Total liabilities and stockholders equity	$	15,751,652	$	15,046,649

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

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BANKUNITED, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME UNAUDITED

(In thousands, except per share data)

	Three Months Ended March 31, 2014	2013
Interest income:		
Loans	$ 163,783	$ 145,091
Investment securities available for sale	24,826	30,005
Other	1,953	1,279
Total interest income	190,562	176,375
Interest expense:		
Deposits	16,095	14,881
Borrowings	8,003	7,707
Total interest expense	24,098	22,588
Net interest income before provision for loan losses	166,464	153,787
Provision for loan losses (including $796 and $4,800 for covered loans)	8,403	11,967
Net interest income after provision for loan losses	158,061	141,820
Non-interest income:		
Income from resolution of covered assets, net	13,061	19,190
Net loss on indemnification asset	(16,904)	(11,687)
FDIC reimbursement of costs of resolution of covered assets	1,128	2,864
Service charges and fees	4,005	3,342
Gain (loss) on sale of loans, net (including gain (loss) related to covered loans of $19,294 and $(772))	19,332	(586)
Gain on investment securities available for sale, net	361	1,686
Other non-interest income	9,207	5,314
Total non-interest income	30,190	20,123
Non-interest expense:		
Employee compensation and benefits	49,449	43,075
Occupancy and equipment	16,967	15,042
Amortization of FDIC indemnification asset	15,741	2,280
(Gain) loss on other real estate owned, net (including (gain) loss related to covered OREO of $(2,806) and $249)	(2,677)	249
Foreclosure and other real estate owned expense	980	1,373
Deposit insurance expense	2,252	1,937
Professional fees	3,430	5,422
Telecommunications and data processing	3,307	3,368
Other non-interest expense	13,012	10,043
Total non-interest expense	102,461	82,789
Income before income taxes	85,790	79,154
Provision for income taxes	30,519	30,928
Net income	$ 55,271	$ 48,226
Earnings per common share, basic	$ 0.53	$ 0.48
Earnings per common share, diluted	$ 0.53	$ 0.47
Cash dividends declared per common share	$ 0.21	$ 0.21

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

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BANKUNITED, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME - UNAUDITED

(In thousands)

	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013
Net income	$ 55,271	$ 48,226
Other comprehensive income, net of tax:		
Unrealized gains on investment securities available for sale:		
Net unrealized holding gains arising during the period	13,411	6,465
Reclassification adjustment for net securities gains realized in income	(222)	(1,036)
Net change in unrealized gains on securities available for sale	13,189	5,429
Unrealized losses on derivative instruments:		
Net unrealized holding losses arising during the period	(4,576)	(1,618)
Reclassification adjustment for net losses realized in income	4,023	2,577
Net change in unrealized losses on derivative instruments	(553)	959
Other comprehensive income	12,636	6,388
Comprehensive income	$ 67,907	$ 54,614

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

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BANKUNITED, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS - UNAUDITED

(In thousands)

	Three Months Ended March 31, 2014	2013
Cash flows from operating activities:		
Net income	$ 55,271	$ 48,226
Adjustments to reconcile net income to net cash used in operating activities:		
Amortization and accretion, net	(72,539)	(101,797)
Provision for loan losses	8,403	11,967
Income from resolution of covered assets, net	(13,061)	(19,190)
Net loss on indemnification asset	16,904	11,687
(Gain) loss on sale of loans, net	(19,332)	586
Increase in cash surrender value of bank owned life insurance	(1,083)	(1,021)
Gain on investment securities available for sale, net	(361)	(1,686)
(Gain) loss on other real estate owned, net	(2,677)	249
Equity based compensation	3,529	3,380
Depreciation and amortization	7,381	4,825
Deferred income taxes	(14,507)	3,849
Proceeds from sale of loans held for sale	2,070	8,672
Loans originated for sale, net of repayments	(3,258)	(8,764)
Realized tax (benefits) deficiency from dividend equivalents and equity based compensation	(615)	66
Other:		
(Increase) decrease in other assets	22,807	(13,572)
Increase (decrease) in other liabilities	(7,572)	5,166
Net cash used in operating activities	(18,640)	(47,357)
Cash flows from investing activities:		
Purchase of investment securities available for sale	(65,652)	(389,836)
Proceeds from repayments of investment securities available for sale	76,525	172,694
Proceeds from sale of investment securities available for sale	119,824	68,019
Purchase of non-marketable equity securities	(10,350)	(7,511)
Proceeds from redemption of non-marketable equity securities	8,767	5,750
Purchases of loans	(179,384)	(227,366)
Loan originations, repayments and resolutions, net	(729,621)	26,983
Proceeds from sale of loans, net	146,920	16,731
Decrease in FDIC indemnification asset for claims filed	41,048	42,688
Purchase of bank owned life insurance	(7,700)	
Bank owned life insurance proceeds	748	2,782
Purchase of premises and equipment, net	(16,352)	(5,295)
Acquisition of equipment under operating lease	(13,995)	(32,950)
Proceeds from sale of other real estate owned	22,832	31,673
Net cash used in investing activities	(606,390)	(295,638)

(Continued)

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

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BANKUNITED, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS - UNAUDITED

(In thousands)

	Three Months Ended March 31,			
	2014		2013	
Cash flows from financing activities:				
Net increase in deposits		591,354		207,373
Additions to Federal Home Loan Bank advances and other borrowings		1,125,000		1,295,000
Repayments of Federal Home Loan Bank advances and other borrowings		(1,075,375)		(1,201,930)
Dividends paid		(21,833)		
Realized tax benefits (deficiency) from dividend equivalents and equity based compensation		615		(66)
Exercise of stock options		914		890
Other financing activities		14,767		7,554
Net cash provided by financing activities		635,442		308,821
Net increase (decrease) in cash and cash equivalents		10,412		(34,174)
Cash and cash equivalents, beginning of period		252,749		495,353
Cash and cash equivalents, end of period	$	263,161	$	461,179
Supplemental disclosure of cash flow information:				
Interest paid	$	22,535	$	23,958
Income taxes paid	$	21,734	$	39,030
Supplemental schedule of non-cash investing and financing activities:				
Transfers from loans to other real estate owned	$	9,154	$	24,793
Disbursement of loan proceeds from escrow	$	52,500	$	
Dividends declared, not paid	$	21,959	$	21,703
Unsettled securities trades	$		$	51,297
Acquisition of assets under capital lease	$	9,035	$	

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

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BANKUNITED, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY - UNAUDITED

(In thousands, except share data)

	Common Shares Outstanding	Common Stock	Preferred Shares Outstanding	Preferred Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders Equity
Balance at December 31, 2013	101,013,014	$ 1,010		$	$ 1,334,945	$ 535,263	$ 57,480	$ 1,928,698
Comprehensive income						55,271	12,636	67,907
Dividends						(21,959)		(21,959)
Equity based compensation	620,180	6			3,523			3,529
Forfeiture of unvested shares	(24,140)							
Exercise of stock options	54,883	1			913			914
Tax benefits from dividend equivalents and equity based compensation					615			615
Balance at March 31, 2014	101,663,937	$ 1,017		$	$ 1,339,996	$ 568,575	$ 70,116	$ 1,979,704
Balance at December 31, 2012	95,006,729	$ 950	5,415,794	$ 54	$ 1,308,315	$ 413,385	$ 83,976	$ 1,806,680
Comprehensive income						48,226	6,388	54,614
Conversion of preferred shares to common shares	5,415,794	54	(5,415,794)	(54)				
Dividends						(21,703)		(21,703)
Equity based compensation					3,380			3,380
Forfeiture of unvested shares	(13,380)							
Exercise of stock options	44,708	1			889			890
Tax deficiency from dividend equivalents and equity based compensation					(66)			(66)
Balance at March 31, 2013	100,453,851	$ 1,005		$	$ 1,312,518	$ 439,908	$ 90,364	$ 1,843,795

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

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BANKUNITED, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED

March 31, 2014

Note 1 Basis of Presentation and Summary of Significant Accounting Policies

BankUnited, Inc. (BankUnited, Inc. or BKU), is a national bank holding company with one wholly-owned subsidiary, BankUnited, National Association (BankUnited or the Bank), collectively, the Company. BankUnited, a national banking association headquartered in Miami Lakes, Florida, provides a full range of banking and related services to individual and corporate customers through 99 branches located in 15 Florida counties and 6 banking centers located in the New York metropolitan area at March 31, 2014.

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

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

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

Accounting Estimates

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

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

Note 2 Earnings Per Common Share

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

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BANKUNITED, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED

March 31, 2014

	Three Months Ended March 31,			
	2014		2013	
Basic earnings per common share:				
Numerator:				
Net income	$	55,271	$	48,226
Distributed and undistributed earnings allocated to participating securities		(2,145)		(3,019)
Income allocated to common stockholders for basic earnings per common share	$	53,126	$	45,207
Denominator:				
Weighted average common shares outstanding		101,325,157		96,121,473
Less average unvested stock awards		(977,439)		(1,166,706)
Weighted average shares for basic earnings per common share		100,347,718		94,954,767
Basic earnings per common share	$	0.53	$	0.48
Diluted earnings per common share:				
Numerator:				
Income allocated to common stockholders for basic earnings per common share	$	53,126	$	45,207
Adjustment for earnings reallocated from participating securities		3		1,109
Income used in calculating diluted earnings per common share	$	53,129	$	46,316
Denominator:				
Average shares for basic earnings per common share		100,347,718		94,954,767
Dilutive effect of stock options and preferred shares		144,483		4,526,162
Weighted average shares for diluted earnings per common share		100,492,201		99,480,929
Diluted earnings per common share	$	0.53	$	0.47

The following potentially dilutive securities were outstanding at March 31, 2014 and 2013 but excluded from the calculation of diluted earnings per common share for the periods indicated because their inclusion would have been anti-dilutive:

	Three Months Ended March 31,	
	2014	2013
Unvested shares	1,271,715	1,175,011
Stock options and warrants	6,386,424	6,569,128

Note 3 Investment Securities Available for Sale

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

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BANKUNITED, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED

March 31, 2014

	March 31, 2014							
	Covered Securities				Non-Covered Securities			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government agency and sponsored enterprise residential mortgage-backed securities	$	$	$	$	$ 1,478,796	$ 38,306	$ (8,297)	$ 1,508,805
U.S. Government agency and sponsored enterprise commercial mortgage-backed securities					9,390		(202)	9,188
Resecuritized real estate mortgage investment conduits (Re-Remics)					246,485	5,106	(18)	251,573
Private label residential mortgage-backed securities and CMOs	114,903	57,244	(77)	172,070	119,140	791	(1,449)	118,482
Private label commercial mortgage-backed securities					838,777	9,560	(7,940)	840,397
Non-mortgage asset-backed securities					166,671	6,350	(89)	172,932
Mutual funds and preferred stocks	15,419	13,909		29,328	95,571	6,122		101,693
State and municipal obligations					15,531		(34)	15,497
Small Business Administration securities					289,210	9,869	(6)	299,073
Other debt securities	3,601	4,256		7,857				
	$ 133,923	$ 75,409	$ (77)	$ 209,255	$ 3,259,571	$ 76,104	$ (18,035)	$ 3,317,640

	December 31, 2013							
	Covered Securities				Non-Covered Securities			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government agency and sponsored enterprise residential mortgage-backed securities	$	$	$	$	$ 1,548,671	$ 34,191	$ (8,559)	$ 1,574,303

U.S. Government agency and sponsored enterprise commercial mortgage-backed securities					27,132		(355)	26,777
Re-Remics					267,525	4,261	(1)	271,785
Private label residential mortgage-backed securities and CMOs	119,434	56,539	(110)	175,863	135,750	329	(1,824)	134,255
Private label commercial mortgage-backed securities					814,114	7,638	(12,980)	808,772
Non-mortgage asset-backed securities					172,329	6,676	(11)	178,994
Mutual funds and preferred stocks	15,419	6,726		22,145	125,387	4,015	(1,870)	127,532
Small Business Administration securities					295,892	13,045		308,937
Other debt securities	3,542	4,219		7,761				
	$ 138,395	$ 67,484	$ (110)	$ 205,769	$ 3,386,800	$ 70,155	$ (25,600)	$ 3,431,355

At March 31, 2014, contractual maturities of investment securities available for sale, adjusted for anticipated prepayments of mortgage-backed and other pass-through securities, were as follows (in thousands):

	Amortized Cost	**Fair Value**
Due in one year or less	$ 500,736	$ 526,446
Due after one year through five years	1,908,357	1,965,395
Due after five years through ten years	780,054	799,600
Due after ten years	93,357	104,433
Mutual funds and preferred stocks with no stated maturity	110,990	131,021
	$ 3,393,494	$ 3,526,895

Based on the Company s proprietary assumptions, the estimated weighted average life of the investment portfolio as of March 31, 2014 was 3.7 years. The effective duration of the investment portfolio as of March 31, 2014 was 2.0 years. The model results are based on assumptions that may differ from actual results.

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BANKUNITED, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED

March 31, 2014

The carrying value of securities pledged as collateral for Federal Home Loan Bank (FHLB) advances, public deposits, interest rate swaps, securities sold under agreements to repurchase and to secure borrowing capacity at the Federal Reserve Bank (FRB) totaled $1.0 billion at March 31, 2014 and $0.9 billion at December 31, 2013.

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

	Three Months Ended March 31, 2014	2013
Proceeds from sale of investment securities available for sale	$ 119,824	$ 119,316
Gross realized gains	$ 1,280	$ 1,689
Gross realized losses	(919)	(3)
Net realized gain	$ 361	$ 1,686

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

	March 31, 2014					
	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government agency and sponsored enterprise residential mortgage-backed securities	$ 310,662	$ (8,297)	$	$	$ 310,662	$ (8,297)
U.S. Government agency and sponsored enterprise commercial mortgage-backed securities	9,188	(202)			9,188	(202)
Re-Remics	3,951	(18)			3,951	(18)
Private label residential mortgage-backed securities and CMOs	39,297	(1,004)	8,052	(522)	47,349	(1,526)
Private label commercial mortgage-backed securities	254,830	(6,106)	41,013	(1,834)	295,843	(7,940)
Non-mortgage asset-backed securities	33,114	(89)			33,114	(89)

State and municipal obligations	15,497	(34)			15,497	(34)
Small Business Administration securities	2,021	(6)			2,021	(6)
	$ 668,560	$ (15,756)	$ 49,065	$ (2,356)	$ 717,625	$ (18,112)

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

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BANKUNITED, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED

March 31, 2014

The Company monitors its investment securities available for sale for other-than-temporary impairment (OTTI) on an individual security basis. No securities were determined to be other than temporarily impaired at March 31, 2014 and 2013. The Company does not intend to sell securities that are in significant unrealized loss positions and it is not more likely than not that the Company will be required to sell these securities before recovery of the amortized cost basis, which may be at maturity. At March 31, 2014, 36 securities were in unrealized loss positions. Unrealized losses on investment securities available for sale at March 31, 2014 were primarily attributable to an increase in medium and long-term market interest rates subsequent to the date the securities were acquired. The amount of impairment related to 12 of these securities was considered insignificant, totaling approximately $155 thousand and no further analysis with respect to these securities was considered necessary. The basis for concluding that impairment of the remaining securities was not other-than-temporary is further described below:

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

At March 31, 2014, nine U.S. Government agency and sponsored enterprise residential and commercial mortgage-backed securities were in unrealized loss positions. All of these securities were in unrealized loss positions for less than 12 months. These securities evidenced unrealized losses ranging from 1% to 8% of amortized cost. The timely payment of principal and interest on these securities is explicitly or implicitly guaranteed by the U.S. Government. Given the limited severity and duration of impairment and the expectation of timely payment of principal and interest, the impairments were considered to be temporary.

Private label residential mortgage-backed securities and CMOs:

At March 31, 2014, five private label residential mortgage-backed securities were in unrealized loss positions. These securities were assessed for OTTI using third-party developed credit and prepayment behavioral models and CUSIP level constant default rates, voluntary prepayment rates and loss severity and delinquency assumptions. The results of these assessments were not indicative of credit losses related to any of these securities as of March 31, 2014. Three of these securities were in unrealized loss positions for less than twelve months and one for 13 months. These securities evidenced unrealized losses ranging from 1% to 6% of amortized cost. The remaining security had been in an unrealized loss position for 33 months and the unrealized loss of $74 thousand amounted to 7% of amortized cost. The market for this security is thin and the market price is adversely affected by lack of liquidity. This bond is considered an odd lot which can be detrimental to potential bids for the security. Given the generally limited duration and severity of impairment and the expectation of timely recovery of outstanding principal, the impairments were considered to be temporary.

Private label commercial mortgage-backed securities:

At March 31, 2014, nine private label commercial mortgage-backed securities were in unrealized loss positions. Eight of these securities were in unrealized loss positions for less than twelve months and one for 15 months. The amount of impairment ranged from less than 1% to 4% of amortized cost. These securities were assessed for OTTI using third-party developed models, incorporating assumptions consistent with the collateral characteristics of each security. The results of this analysis were not indicative of expected credit losses. Securities in this class generally have longer durations than the portfolio as a whole, so are more significantly impacted by changes in rates. Given the limited severity and duration of impairment and the expectation of timely recovery of outstanding principal, the impairments were considered to be temporary.

Non-mortgage asset-backed securities:

At March 31, 2014, one non-mortgage asset-backed security was in an unrealized loss position. This security had been in an unrealized loss position for less than 3 months and the amount of impairment was less than 1% of amortized cost. This security was assessed for OTTI using a third-party developed credit and prepayment behavioral model and CUSIP level constant default rates, voluntary prepayment rates and loss severity and delinquency assumptions. The results of this analysis were not indicative of expected credit losses. Given the limited severity and duration of impairment and the expectation of timely recovery of outstanding principal, the impairment was considered to be temporary.

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Note 4 Loans and Allowance for Loan and Lease Losses

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

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

	March 31, 2014					
	Covered Loans		Non-Covered Loans			
	ACI	Non-ACI	ACI	New Loans	Total	Percent of Total
Residential:						
1-4 single family residential	$ 1,005,247	$ 67,876	$	$ 1,938,321	$ 3,011,444	30.3%
Home equity loans and lines of credit	38,100	122,745		1,448	162,293	1.6%
	1,043,347	190,621		1,939,769	3,173,737	31.9%
Commercial:						
Multi-family	19,288		8,102	1,259,376	1,286,766	12.9%
Commercial real estate						
Owner occupied	27,372	1,272	10,104	775,601	814,349	8.2%
Non-owner occupied	38,200		1,949	1,181,545	1,221,694	12.3%
Construction and land	213			160,266	160,479	1.6%
Commercial and industrial	1,524	3,470		2,626,055	2,631,049	26.5%
Lease financing				352,785	352,785	3.6%
	86,597	4,742	20,155	6,355,628	6,467,122	65.1%
Consumer	200			295,448	295,648	3.0%
Total loans	1,130,144	195,363	20,155	8,590,845	9,936,507	100.0%
Premiums, discounts and deferred fees and costs, net		(12,483)		49,786	37,303	
Loans net of premiums, discounts and deferred fees and costs	1,130,144	182,880	20,155	8,640,631	9,973,810	
Allowance for loan and lease losses		(7,312)		(62,716)	(70,028)	
Loans, net	$ 1,130,144	$ 175,568	$ 20,155	$ 8,577,915	$ 9,903,782	

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

At March 31, 2014 and December 31, 2013, the unpaid principal balance (UPB) of ACI loans was $3.1 billion and $3.3 billion, respectively.

During the three months ended March 31, 2014 and 2013, the Company purchased 1-4 single family residential loans totaling $179 million and $227 million, respectively.

At March 31, 2014, the Company had pledged real estate loans with UPB of approximately $6.5 billion and recorded investment of approximately $4.7 billion as security for FHLB advances.

Covered loan sales

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

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	Three Months Ended March 31, 2014	2013
UPB of loans sold	$ 70,188	$ 32,258
Cash proceeds, net of transaction costs	$ 45,897	$ 16,731
Recorded investment in loans sold	36,087	7,265
Net pre-tax impact on earnings, excluding gain (loss) on indemnification asset	$ 9,810	$ 9,466
Gain (loss) on sale of covered loans	$ 1,323	$ (772)
Proceeds recorded in interest income	8,487	10,238
	$ 9,810	$ 9,466
Gain (loss) on indemnification asset	$ (320)	$ 1,216

Covered 1-4 single family residential loans with UPB of $16 million and $20 million, respectively, were sold from a pool of ACI loans with a zero carrying value. Proceeds of the sale of loans from this pool, representing realization of accretable yield, were recorded in interest income. The loss on the sale of loans from the remaining pools, representing the difference between the recorded investment and consideration received, was recorded in Gain (loss) on sale of loans, net in the accompanying consolidated statements of income.

During the three months ended March 31, 2014, in accordance with the terms of the Commercial Shared-Loss Agreement, the Bank requested and received approval from the FDIC to sell certain covered commercial and consumer loans. These loans were transferred to loans held for sale at the lower of carrying value or fair value, determined at the individual loan level, upon receipt of FDIC approval and sold in March 2014. The reduction of carrying value to fair value for specific loans was recognized in the provision for loan losses. The following table summarizes the pre-tax impact of these sales, as reflected in the consolidated statements of income for the three months ended March 31, 2014 (in thousands):

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

Allowance for loan and lease losses

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

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	Three Months Ended							
	March 31, 2014				March 31, 2013			
	Residential	Commercial	Consumer	Total	Residential	Commercial	Consumer	Total
Beginning balance	$ 15,353	$ 52,185	$ 2,187	$ 69,725	$ 19,164	$ 39,543	$ 414	$ 59,121
Provision for (recovery of) loan losses:								
ACI loans		1,974	324	2,298		(1,403)		(1,403)
Non-ACI loans	(1,650)	148		(1,502)	7,164	(961)		6,203
New loans	450	6,033	1,124	7,607	(5,727)	12,771	123	7,167
Total provision	(1,200)	8,155	1,448	8,403	1,437	10,407	123	11,967
Charge-offs:								
ACI loans		(4,867)	(324)	(5,191)		(1,826)		(1,826)
Non-ACI loans	(233)	(490)		(723)	(1,000)	(105)		(1,105)
New loans		(2,186)	(363)	(2,549)		(8,194)	(20)	(8,214)
Total charge-offs	(233)	(7,543)	(687)	(8,463)	(1,000)	(10,125)	(20)	(11,145)
Recoveries:								
Non-ACI loans	9	26		35	11	936		947
New loans		168	160	328		113	20	133
Total recoveries	9	194	160	363	11	1,049	20	1,080
Ending balance	$ 13,929	$ 52,991	$ 3,108	$ 70,028	$ 19,612	$ 40,874	$ 537	$ 61,023

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

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

	March 31, 2014				December 31, 2013			
	Residential	Commercial	Consumer	Total	Residential	Commercial	Consumer	Total
Allowance for loan and lease losses:								
Ending balance	$ 13,929	$ 52,991	$ 3,108	$ 70,028	$ 15,353	$ 52,185	$ 2,187	$ 69,725
Ending balance: non-ACI and new loans individually evaluated for impairment	$ 858	$ 7,211	$	$ 8,069	$ 855	$ 9,467	$	$ 10,322
Ending balance: non-ACI and new loans collectively evaluated for	$ 13,071	$ 45,780	$ 3,108	$ 61,959	$ 14,498	$ 39,825	$ 2,187	$ 56,510

impairment								
Ending balance: ACI	$	$	$	$	$	$ 2,893	$	$ 2,893
Ending balance: non-ACI	$ 7,196	$ 116	$	$ 7,312	$ 9,070	$ 432	$	$ 9,502
Ending balance: new loans	$ 6,733	$ 52,875	$ 3,108	$ 62,716	$ 6,283	$ 48,860	$ 2,187	$ 57,330
Loans:								
Ending balance	$ 3,192,515	$ 6,475,958	$ 305,337	$ 9,973,810	$ 3,111,167	$ 5,720,722	$ 221,720	$ 9,053,609
Ending balance: non-ACI and new loans individually evaluated for impairment	$ 5,869	$ 18,826	$	$ 24,695	$ 5,663	$ 22,584	$	$ 28,247
Ending balance: non-ACI and new loans collectively evaluated for impairment	$ 2,143,299	$ 6,350,380	$ 305,137	$ 8,798,816	$ 2,008,890	$ 5,490,324	$ 220,041	$ 7,719,255
Ending balance: ACI loans	$ 1,043,347	$ 106,752	$ 200	$ 1,150,299	$ 1,096,614	$ 207,814	$ 1,679	$ 1,306,107

Credit quality information - new and non-ACI loans

Commercial relationships on non-accrual status with internal risk ratings of substandard or doubtful and with committed balances greater than or equal to $750,000 as well as loans that have been modified in troubled debt restructurings (TDRs) are individually evaluated for impairment. The tables below present information about new and non-ACI loans individually evaluated for impairment and identified as impaired at the dates indicated (in thousands):

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	March 31, 2014			December 31, 2013		
	Recorded Investment	UPB	Related Specific Allowance	Recorded Investment	UPB	Related Specific Allowance
New loans:						
With no specific allowance recorded:						
Commercial real estate						
Owner occupied	$ 3,181	$ 3,166	$	$ 1,751	$ 1,754	$
Non-owner occupied	1,414	1,414		1,444	1,444	
With a specific allowance recorded:						
Commercial and industrial	13,052	13,058	6,606	16,048	16,055	8,696
Lease financing	1,179	1,179	605	1,345	1,345	771
Total:						
Residential	$	$	$	$	$	$
Commercial	18,826	18,817	7,211	20,588	20,598	9,467
	$ 18,826	$ 18,817	$ 7,211	$ 20,588	$ 20,598	$ 9,467
Non-ACI loans:						
With no specific allowance recorded:						
1-4 single family residential	$ 167	$ 197	$	$ 168	$ 198	$
Home equity loans and lines of credit	1,695	1,724		1,703	1,734	
Commercial and industrial				1,996	1,999	
With a specific allowance recorded:						
1-4 single family residential	3,538	4,171	811	3,564	4,203	827
Home equity loans and lines of credit	469	477	47	228	232	28
Total:						
Residential	$ 5,869	$ 6,569	$ 858	$ 5,663	$ 6,367	$ 855
Commercial				1,996	1,999	
	$ 5,869	$ 6,569	$ 858	$ 7,659	$ 8,366	$ 855

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

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

	Three Months Ended March 31, 2014		2013	
	New Loans	Non-ACI Loans	New Loans	Non-ACI Loans
Residential:				
1-4 single family residential	$	$ 3,719	$	$ 3,954
Home equity loans and lines of credit		2,048		1,042
		5,767		4,996
Commercial:				
Multi-family			1,825	
Commercial real estate				
Owner occupied	2,466			
Non-owner occupied	1,429		1,549	30
Commercial and industrial	14,550	998	17,313	2,917
Lease financing	1,262		1,594	
	19,707	998	22,281	2,947
	$ 19,707	$ 6,765	$ 22,281	$ 7,943

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

	March 31, 2014		December 31, 2013	
	New Loans	Non-ACI Loans	New Loans	Non-ACI Loans
Residential:				
1-4 single family residential	$ 194	$ 291	$ 194	$ 293
Home equity loans and lines of credit		6,045		6,559
	194	6,336	194	6,852
Commercial:				
Commercial real estate				
Owner occupied	3,662		2,785	
Non-owner occupied	1,414		1,444	52
Construction and land	235		244	
Commercial and industrial	13,293	335	16,612	2,765
Lease financing	1,197		1,370	
	19,801	335	22,455	2,817
Consumer	258		75	
	$ 20,253	$ 6,671	$ 22,724	$ 9,669

New and non-ACI loans contractually delinquent by 90 days or more and still accruing totaled $1.2 million and $0.5 million at March 31, 2014 and December 31, 2013, respectively. The amount of additional interest income that would have been recognized on non-accrual loans and TDRs had they performed in accordance with their contractual terms is not material.

The following table summarizes new and non-ACI loans that were modified in TDRs during the periods indicated, as well as new and non-ACI loans modified during the twelve months preceding March 31, 2014 and 2013, that experienced payment defaults during the periods indicated (dollars in thousands):

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	Three Months Ended March 31,							
	2014				2013			
	Loans Modified in TDRs During the Period		TDRs Experiencing Payment Defaults During the Period		Loans Modified in TDRs During the Period		TDRs Experiencing Payment Defaults During the Period	
	Number of TDRs	Recorded Investment	Number of TDRs	Recorded Investment	Number of TDRs	Recorded Investment	Number of TDRs	Recorded Investment
New loans:								
Commercial real estate	1	$ 317		$		$		$
Commercial and industrial					1	533	2	677
	1	$ 317		$	1	$ 533	2	$ 677
Non-ACI loans:								
1-4 single family residential		$		$	2	$ 330	1	$ 159
Home equity loans and lines of credit	1	243			1	898		
	1	$ 243		$	3	$ 1,228	1	$ 159

Modifications during the three months ended March 31, 2014 and 2013 included restructuring of the amount and timing of required periodic payments, extensions of maturity and residential modifications under the U.S. Treasury Department s Home Affordable Modification Program (HAMP). Included in TDRs are loans to consumer borrowers who have not reaffirmed their debt discharged in Chapter 7 bankruptcy. The total amount of such loans is not material. Because of the immateriality of the amount of loans modified in TDRs and nature of the modifications, the modifications did not have a material impact on the Company s consolidated financial statements or on the determination of the amount of the ALLL at March 31, 2014 and 2013.

Management considers delinquency status to be the most meaningful indicator of the credit quality of 1-4 single family residential, home equity and consumer loans. Delinquency statistics are updated at least monthly. Original loan to value (LTV) ratio and original FICO score are also important indicators of credit quality for the new 1-4 single family residential portfolio, while original FICO score is an important indicator of credit quality for the indirect auto portfolio.

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

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

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Residential credit exposure, based on delinquency status:

	March 31, 2014		December 31, 2013	
	1-4 Single Family Residential	Home Equity Loans and Lines of Credit	1-4 Single Family Residential	Home Equity Loans and Lines of Credit
New loans:				
Current	$ 1,965,111	$ 1,448	$ 1,824,084	$ 1,535
Past due less than 90 days	3,592		3,099	
Past due 90 days or more	766		597	
	$ 1,969,469	$ 1,448	$ 1,827,780	$ 1,535
Non-ACI loans:				
Current	$ 55,872	$ 112,253	$ 56,248	$ 116,036
Past due less than 90 days	1,678	1,728	3,422	2,973
Past due 90 days or more	33	6,687		6,559
	$ 57,583	$ 120,668	$ 59,670	$ 125,568

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

	March 31, 2014				
	FICO				
LTV	720 or less	721 - 740	741 - 760	761 or greater	Total
60% or less	$ 46,876	$ 69,011	$ 92,172	$ 502,162	$ 710,221
60% - 70%	32,807	51,571	80,212	321,948	486,538
70% - 80%	22,298	65,606	131,784	507,458	727,146
More than 80%	27,076	5,453	3,149	9,886	45,564
	$ 129,057	$ 191,641	$ 307,317	$ 1,341,454	$ 1,969,469

December 31, 2013